

Woodward Industries Products Limited
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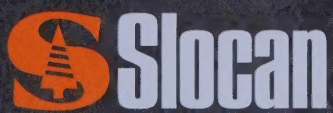
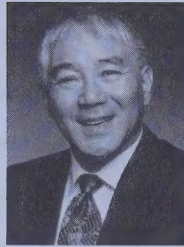


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Report to Shareholders, Employees and Communities

The year 2003 marks the 25th anniversary of Slocan Forest Products Ltd. From its beginning with the acquisition of one sawmill at the south end of Slocan Lake in the Kootenay region of southeastern B.C., Slocan has grown over 25 years to become one of Canada's largest lumber producers with an annual capacity of 1.8 billion board feet of lumber.

This growth has been accomplished despite substantial challenges and difficult markets over the years, including repeated disputes over the terms of access to our largest market, the United States. Last year we commented that "2001 was one of the most difficult and challenging years the forest industry has faced in a long time". 2001 started with low lumber prices and ended with the imposition of interim U.S. countervail duties and anti-dumping duties totalling 27%.

In 2002, the challenges continued with no resolution of the softwood lumber dispute. While the U.S. Department of

Commerce determination of no material injury to the U.S. lumber interests resulted in the release of the interim duties, it found "threat of material injury" and imposed "final" duties totalling 26.5% for Slocan. In the process, Slocan's individual anti-dumping duty was reduced from an initial level of 19.2% to 7.71%. All these duties remain subject to further review and appeals to tribunals under NAFTA and to the World Trade Organization.

While there has been tremendous effort to negotiate a solution by industry participants and representatives of provincial and

federal governments, no agreement has been reached. At the end of March, 2003, the British Columbia government has adopted legislation to bring in sweeping changes to forest policy. Much of this is intended to move to an auction based system of timber pricing and stumpage, reducing the annual allowable cut of licencees by approximately 20% and increasing the volume of timber available for competitive bid. Restrictions on the use of timber, including minimum cut and mill appurtenancy requirements are to be removed from licencees. These changes are in line with principles stated by U.S. government authorities as a possible basis for eliminating anti-dumping and countervailing duties.

It is too early to predict the overall effect of these changes, either on a resolution of the softwood lumber dispute or our operations and costs. However, we are confident that we can continue to operate profitably and more efficiently under rules that eliminate artificial constraints and we do recognize that we need to continue to build good relations with our U.S. trading partner as global challenges will continue in the future.

Despite the substantial burden of the U.S. softwood duties, Slocan was able to improve its financial performance significantly in 2002. Net earnings improved to \$39.7 million (\$1.07 per share) for 2002, compared to a loss of \$25.2 million (\$0.69 per share) for 2001. The provisions for U.S. duties and foreign exchange significantly affected results in both years. Further details and an explanation of our financial results are provided in the section of this Annual Report for 2002 entitled "Management's Discussion and Analysis of Financial Results".

Demand for lumber and panel products was very strong in North America in 2002, fueled by low mortgage interest rates. Housing starts reached 1.9 million, the highest level in 16 years. However, product prices remained relatively low (lumber averaging US\$237 per thousand board feet in 2002). These low prices were the result of excess supply, caused by an increase in lumber production from Canadian and U.S. manufacturers, higher shipments from European producers who were assisted by the competitive advantage of favourable currency exchange, and the effect of duties on Canadian imports.

One positive result of the softwood lumber dispute has been substantial improvements in the productivity of our mills and a reduction in unit costs. Slocan focussed with great success on lowering unit production costs in order to minimize the anti-dumping duty and remain competitive in the U.S. We have shifted production to lower cost facilities and our operations have become more efficient. Where necessary, we have curtailed higher cost operations. Our Slocan and Valemount mills did not operate in the third and fourth quarters.

Other efficiencies and measures taken to allow us to compete despite the duties include increasing shipments to reload facilities in the U.S. to accommodate customers requiring just-in-time delivery, and increasing shipments to offshore markets such as Japan.

As a result of the strong demand for lumber we have been able to reduce our lumber inventory by 33% to 146 million board feet at year end compared to the previous year.

We are operating in 2003 under a three year plan which will position Slocan as one of the lowest cost producers in B.C. This plan is based on improving our Company in three key areas:

- investment of capital in our facilities to improve operating efficiencies, increase output and lower unit production costs;
- improving our financial position by lowering our debt to equity ratio and interest costs; and
- upgrading our performance through better systems, training and leadership for our employees.

As part of this plan, we will be rebuilding our Quesnel sawmill in 2003 to make it one of the most efficient in the Province and benefit from the available timber in its supply region.

We reduced our long term debt by U.S. \$80 million on February 28, 2003 to U.S. \$160 million, improving our debt to equity ratio to 1.52 : 1.

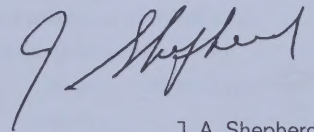
Within our Company, we will continue to implement strong planning disciplines with divisions and service groups evaluated against meeting plan objectives. We will continue our current focus on training and development of people with particular emphasis on first line supervisors. Safety, communications, team building and personal accountability will receive special emphasis throughout 2003.

This past year saw a number of changes in our executive team and on our Board of Directors. We would like to welcome Doug Wilkes as Senior Vice-President, Chief Financial Officer and

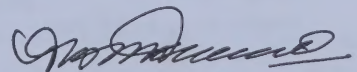
Secretary, Dan Madlung as Vice President, Operations and Tom Temple as Vice President, Sales & Marketing. All bring extensive industry experience and strong records of accomplishments to Slocan.

Ron Price, Mike Madrigga, Terry Upgaard senior and Jim Barber have left executive positions within Slocan and we would like to thank each of them for their contributions to the Company. James A. Pattison and Michael J. Korenberg will not be standing for re-election to the Slocan Board of Directors. We would like to thank them for their support and guidance.

We would also like to thank all of our employees and contractors, and our management team for meeting the challenges of 2002 and working with us to deliver the results presented in our business plan.



J. A. Shepherd
President and
Chief Executive Officer



B. C. Louie
Chairman

FINANCIAL HIGHLIGHTS

(Figures in the Financial Highlights tables are expressed in thousands of dollars except Financial Analysis, Common Share Data and Other Data, and should be read in conjunction with the Notes set out below)

Sales and Earnings		2002	2001⁽¹⁾
Sales	\$	932,484	\$ 841,746
EBITDA ⁽²⁾		140,873	71,413
Cash flow from operations before changes in non-cash working capital items		70,783	51,004
Earnings (loss) before income taxes		60,789	(37,607)
Net earnings (loss)		39,659	(25,241)
Financial Position			
Working capital	\$	165,080	\$ 221,728
Total assets		834,731	818,360
Long-term debt (including current position) ⁽³⁾		376,680	381,648
Shareholders' equity		232,813	192,862
Capital expenditures		44,259	31,407
Financial Analysis			
Return on capital employed ⁽⁴⁾		10.75%	(0.86)%
Return on common shareholders' equity		18.63%	(11.85)%
Ratio of current assets to current liabilities		1.77:1	2.66:1
Ratio of net debt to shareholders' equity		50:50	60:40
Net earnings as a % of sales		4.25%	(3.00)%
Common Share Data			
Common shares outstanding			
Weighted average		36,927,092	36,726,288
Year end position		36,944,696	36,895,896
Per Share (in dollars)			
EBITDA ⁽²⁾	\$	3.81	\$ 2.65
Cash flow from operations before changes in non-cash working capital items		1.92	1.41
Net earnings - basic		1.07	(0.69)
- diluted		1.07	(0.69)
Dividends		-	0.375
Shareholders' equity		6.30	5.23
Other Data			
Production:			
Lumber (Mfbm)		1,620,283	1,383,183
Plywood (M sq. ft.) 3/8" basis		252,120	229,234
OSB (M sq. ft.) 3/8" basis		477,631	475,217
Wood chips and other by-products (BDUs)		1,017,948	857,834
Pulp (ADMts)		169,467	156,200

Notes to Financial Highlights: (1) Comparative figures have been restated to reflect the change in accounting policy as outlined in note 2 of the attached financial statements

(2) Means earnings before interest, taxes, depreciation and amortization. The 2002 figures include the addback of the 2001 preliminary US duties. EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP") but is a useful supplemental indicator of earnings before interest, taxes, depreciation and amortization. Slocan's method of calculating EBITDA may differ from other issuers and is not to be construed as an alternative to net earnings determined in accordance with GAAP.

(3) US\$80 million (Cdn. \$125.6 million) was prepaid on February 28, 2003.

(4) Return on capital employed equals net income plus interest, after tax, divided by the average of the capital employed at the beginning and end of the year.



Management's Discussion and Analysis of Financial Results

Slocan Forest Products Ltd. (the "Company") directly, and in partnership with or through subsidiary companies (collectively "Slocan"), manufactures and markets dimension lumber, specialty wood products, panel products, wood chips and chemi-thermo mechanical pulp ("CTMP"). These products are sold principally in North American, Asian and European markets.

Lumber, plywood and wood chips are produced at Slocan's ten sawmills and one plywood plant located throughout the interior of British Columbia. Slocan also produces oriented strand board ("OSB") at a facility at Fort Nelson, British Columbia and bleached and unbleached softwood and hardwood CTMP at a pulp mill located in Taylor, British Columbia. Slocan further processes lumber into value added and engineered wood products at its custom remanufacturing facility at Chilliwack, British Columbia.

Slocan's facilities have the capacity to produce up to 1.8 billion board feet of lumber, 280 million square feet of plywood (3/8 inch basis), 540 million square feet of oriented strand board (3/8 inch basis), 800,000 bone dry units of wood chips and 220,000 tonnes of CTMP annually.

SIGNIFICANT EVENTS

During 2002 and 2001 certain significant transactions and events occurred which affected Slocan's operations, financial position and corporate structure.

Softwood Lumber Dispute

On April 2, 2001, after the expiry of the Canada/U.S. softwood lumber agreement, certain U.S. industry and trade groups filed petitions with the U.S. Department of Commerce (USDOC) and the U. S. International Trade Commission (USITC) for the imposition of antidumping (ADD) and countervailing (CVD) duties on softwood lumber shipped from Canada to the United States. The USITC made a preliminary determination that there

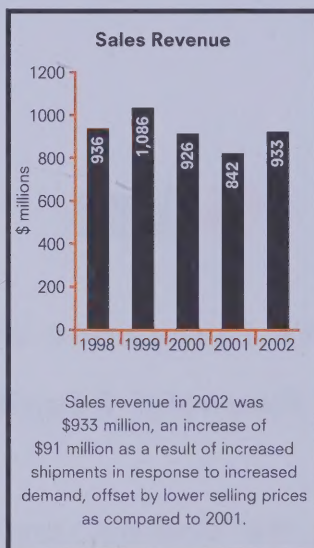
was a reasonable indication that the U.S. lumber industry was threatened with material injury and, on August 9, 2001, the USDOC issued its preliminary CVD rate for the Canadian lumber industry of 19.31% on shipments of softwood lumber to the U.S. after August 16, 2001. The USDOC made its preliminary antidumping determination on October 31, 2001 and issued a preliminary duty rate for Slocan of 19.24% for lumber products sold into the U.S. commencing November 6, 2001.

On March 22, 2002, the USDOC in making its final determination, issued a final CVD deposit rate for the Canadian lumber industry of 18.79% as amended, and a final ADD deposit rate for Slocan of 7.71% as amended and a final ADD rate for the Canadian lumber industry averaging 9.67%. On May 16, 2002, the USITC published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, cash deposits are required for lumber shipments from Canada to the U.S. at the final rates determined by the USDOC effective from the Final Order date of May 22, 2002 and all bonds and cash deposits posted prior to May 22, 2002 are to be refunded.

The Company and other Canadian forest products companies deny the U.S. allegations and strongly disagree with the CVD and ADD determinations made by the USITC and the USDOC. Unless a negotiated resolution is achieved, all available options to challenge the CVD and ADD determinations under the North American Free Trade Agreement (NAFTA) and through the World Trade Organization (WTO) will be pursued.

As a result of the USDOC determinations, Slocan has recorded a total charge against pre-tax earnings of \$57.8 million for the combined countervailing and antidumping duties on lumber shipments from May 22, 2002 to the end of the year. This amount has been recorded by reducing net sales. As a result of the USITC ruling on May 16, 2002, Slocan also reversed \$26.0 million of combined countervailing and antidumping duties accrued to December 31, 2001 into income in the second quarter of 2002. Notwithstanding the final deposit rates established by the USDOC in the investigations, Slocan's actual final liability for countervailing and antidumping duties will not be determined until an annual administrative review process is completed by the USDOC.

For a discussion of the impact of the CVD and ADD, see the "Risks and Uncertainties" section of the Management's Discussion and Analysis of the Financial Results below and Note 10 to Slocan's Consolidated Audited Financial Statements included in this Annual Report.



Slocan/Louisiana-Pacific Canada

Joint Venture

In June 2000, Slocan and Louisiana-Pacific Canada Ltd. formed a joint venture company, Slocan-LP OSB Corp., which is owned equally by both companies. The joint venture company was established for the purpose of constructing and operating an OSB plant in the Fort St. John area of British Columbia. This plant, which had an estimated capital cost of \$200 million, would have an annual production capacity of 700 million square feet of OSB. In June 2000, Slocan obtained approval from the

Ministry of Forests to amend an existing pulpwood agreement for up to 500,000 cubic metres of annual timber harvest, which was previously available to the Company for an expansion of the pulp mill. This amendment allows Slocan to use up to 330,000 cubic metres of the timber available under this license for production in the new OSB plant. In 2001, Slocan-LP Corp. selected a site and, in early 2002, obtained the required environmental approvals for the plant. In late 2002, faced with overcapacity in the OSB market and the uncertainty regarding implications of planned forest policy changes in British Columbia, Slocan-LP OSB Corp. determined that the start of the project would be delayed until 2004.

COMPARISON OF 2002 AND 2001 OPERATING RESULTS

Net Earnings

Slocan generated net earnings of \$39.7 million in 2002 compared to a loss of \$25.2 million for 2001. Net earnings per share for 2002 were \$1.07 (\$1.07 on a diluted basis) compared with a loss per share of \$0.69 (\$0.69 on a diluted basis) for 2001.

Results of operations in 2002 were favorably impacted by higher plywood prices, lower costs for logging and lumber and pulp production and increased production and sales volumes

of lumber. 2002 results were negatively impacted by the \$57.8 million provision for U.S. duties on lumber shipments to the U.S. after May 22, 2002. This was partially offset by the reversal in the second quarter of 2002 of duties recorded in 2001 in the amount of \$26.0 million, which, as a result of the USITC final determination in 2002, are not payable.

Earnings from Operations

Earnings from operations after the \$57.8 million provision for 2002 U.S. duties and the \$26 million reversal of 2001 U.S. duties were \$88.1 million in 2002, compared to \$16.1 million in 2001. Net sales in 2002 were \$932.5 million (after duties), an increase of 10.8% over net sales of \$841.7 million in 2001. Continued strong demand for lumber and panel products in the North American housing sector enabled the Company to increase production and sales of lumber, OSB and plywood. Improved operating efficiencies resulted in cost reductions in most logging and manufacturing operations with a corresponding positive impact on earnings. Wood chip prices paid by pulp mills declined as a result of lower northern bleached softwood kraft (NBSK) pulp prices, resulting in slightly lower earnings.

Lumber Operations

Earnings from lumber operations after provision for and reversal of U.S. duties increased to \$60.7 million in 2002 from \$18.8 million in 2001. 2002 results include the reversal of the \$26.0 million 2001 duty provision.

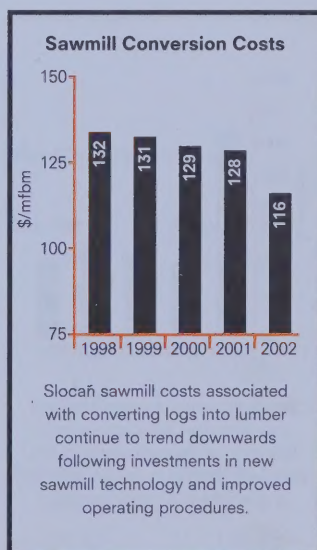
Fueled by low mortgage interest rates, North American housing starts reached 1.9 million in 2002, the highest level in 16 years and an increase of 8.1% over 2001. Strong demand for lumber in the housing sector enabled the Company to increase lumber shipments to 1.68 billion board feet in 2002 from 1.44 billion board feet in 2001. This was accomplished through a combination of increased production (237 million fbm) and by reducing year end inventories. Additional production shifts were added at the Company's operations with lower lumber production costs. At the same time, the impact of the U.S. duties caused the Company to temporarily cease production in the third and fourth quarters at two of its higher cost lumber mills.

To reduce the dependency on U.S. markets and the impact of U.S. duties, the Company continues to develop offshore markets. In spite of the difficult economic conditions in Japan, the Company increased shipments to that country to 175 million board feet in 2002 or 10.4% of total shipments, compared to 130 million board feet or 9.2% in 2001.

In spite of strong demand, North American lumber selling prices decreased in 2002, as both production of lumber in North America and imports to the U.S. from Europe increased significantly. The Random Lengths SPF 2x4 std&btr lumber selling price averaged US\$237 per mfbm in 2002, compared to US\$250 per mfbm in 2001. The impact of the U.S. duties, which were assessed on all lumber shipments to the U.S. after May 22, 2002 and recorded as a reduction in sales revenue by the Company, reduced the net sales per mfbm in 2002 to below 2001 levels.

The benefits of capital improvement expenditures in prior years, the shift of production to lower cost facilities, improved operating efficiencies and the impact of increased production rates, all combined to lower unit costs during 2002. Total cost of lumber sold in 2002, including fibre costs net of woodchip revenue, conversion costs and shipping and overhead, was Cdn\$338/mfbm, a decrease of Cdn\$22/mfbm from 2001.

Market related production curtailments were taken in the second and third quarters at most of the Company's lumber operations. Production at the higher cost Slocan and Valemount Lumber Divisions ceased in the third quarter and the operations remained closed throughout the fourth quarter. Lumber production increased at the Quesnel and Plateau Divisions with the addition of a third shift during the year. In 2001, lumber production was curtailed at each of the Company's sawmills ranging from five to eight weeks. The strong demand for lumber in 2002 enabled the Company to reduce lumber inventory at the end of the year to 146 million board feet, a reduction of 66 million board feet from the beginning of the year.



Panel Operations

Earnings from the Company's plywood and OSB operations were \$27.7 million in 2002 compared to \$13.4 million in 2001.

The strong North American housing sector fueled increased demand for panel products in 2002. Plywood shipments from the Company's Tackama Division were

255 million square feet in 2002, an increase of 11% over 2001. The Company's plywood operation at its Tackama Division was shut down for two weeks in 2002 to coincide with the Tackama lumber production curtailment. The facility was shut down for four weeks in 2001. OSB shipments from the Polarboard Division were 497 million square feet in 2002, an increase of 5% over 2001.

Stronger demand coupled with limited supply increased plywood market prices. The Company's mill net return averaged Cdn\$345/m³/8 in 2002, up 9% over 2001. Increased demand for OSB was satisfied through increased production in most geographic areas of North America. As a result, OSB prices were virtually unchanged in 2002 from the prior year.

Pulp Operations

Earnings from the pulp division were \$4.4 million in 2002 compared to a loss of \$11.3 million in 2001.

Weak demand and high inventories in world markets experienced in the last half of 2001 continued throughout 2002. Most of the CTMP shipped from the Company's Taylor Pulp Division's mill is destined for customers in Asia. The average market price of NBSK pulp delivered to South Korea, the Company's single biggest market, declined from US\$480 per tonne in 2001 to US\$450 per tonne in 2002. In spite of this decline, the Company's average mill return for CTMP increased in 2002 over the prior year, as selling costs were reduced and sales shifted away from lower return markets.

Production was increased to 169,000 tonnes in 2002 on sales of 167,000 tonnes. In 2001, production was limited to 156,000 tonnes on sales of 168,000 tonnes in order to reduce inventories. Lower input wood chip costs, higher production rates and a concerted cost reduction program combined to reduce production costs by \$86 per tonne in 2002 over 2001.

Non Segment Items

Interest and other costs not attributable to product segments totalled \$4.6 million in 2002, relatively unchanged year over year.

Financial Position

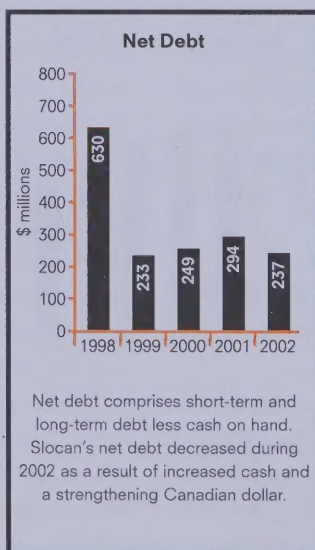
The Company's financial objectives are to minimize the Company's exposure to risk associated with periods of low commodity prices and unfavorable exchange rate environment by lowering the debt to equity ratio, reducing debt service costs and ultimately improving access to more flexible sources of capital.

The cash position at the end of 2002 was \$139.8 million, compared to \$87.9 million at the end of 2001. The improvement resulted from increased cash generated from operations in excess of capital expenditures, and inventory and other working capital control measures.

Cash flow from operations, net of reforestation expenditures, increased to \$90.4 million in 2002, compared to \$70.9 million in 2001. Net earnings in 2002 increased by \$64.9 million over 2001, and included a non-cash reversal of U.S. provisional duties of \$26.0 million that had been accrued in 2001 and an unrealized gain on translation of U.S. dollar denominated debt of \$5.0 million. \$44.3 million was invested in addition to property plant and equipment in 2002, including \$22.1 million in normal replacement of logging roads and \$22.1 million in profit improvement projects in the manufacturing facilities.

Total long-term debt at the end of 2002 consisted of four series of U.S. dollar denominated senior notes totalling US\$240 million, unchanged from 2001. The Cdn\$5.0 million reduction during the year in the total long-term debt recorded on the balance sheet from Cdn\$381.6 million to Cdn\$376.6 million was due to changes in the Canadian dollar equivalent of these notes converted at year end exchange rates. The maturity date on the US\$50 million Series B Notes was October 24, 2003 and, accordingly, the Canadian equivalent of this amount was recorded as a current liability on the December 31, 2002 balance sheet.

Consistent with the Company's objective of lowering debt and debt service costs, on February 28, 2003 the Company prepaid all of the outstanding Series B Notes and purchased an additional US\$30 million of Notes of other Series due in 2005 and 2007. The Note prepayment and purchase were made from cash reserves.



Because of uncertainties arising from the continuing softwood lumber dispute, the Company did not declare or pay any dividend in 2002. The Company paid dividends on common shares in 2001 of \$13.8 million.

At December 31, 2002 the Company's leverage as measured by its long-term debt to equity improved to 1.62 to 1 compared to 1.98 to 1 at the end of 2001. The ratio of current assets to current liabilities, excluding current portion of long-term debt, at December 31, 2002 was 2.81 to 1 compared to 2.66 to 1 at the end of 2001. After reflecting the Note prepayments and purchases on February 28, 2003, the long-term debt to equity improved to 1.52 to 1.

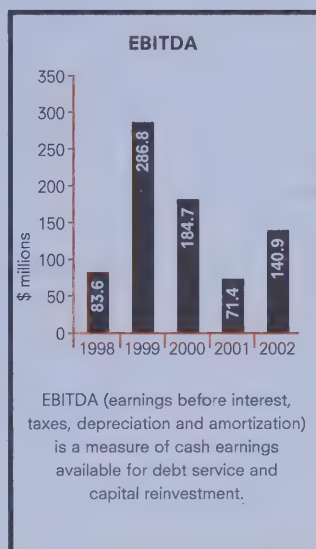
Liquidity and Capital Resources

On September 18, 2002 the Company renewed its operating credit facility for a three year term, subject to extension annually for a further year. The credit facility was reduced from \$120 million to \$95 million, as the facility was not utilized in 2001 or 2002, except in connection with certain deposit and security arrangements.

The Company has developed a three-year capital improvement plan, which includes \$45 million for mill improvements in 2003,

with the largest project being the rebuild of its Quesnel sawmill facility. The Company expects to fund substantially all of its 2003 capital and operating cash requirements from cash generated from operations.

The operating credit facility and the senior notes are secured by security interests over substantially all of the Company's assets. After the Note prepayment in February, 2003, the next principal payment on the long-term debt of US\$58 million is scheduled for October 24, 2005.



Risks and Uncertainties

Operating results of Slocan are significantly affected by fluctuations in the selling prices of lumber, plywood, OSB, wood chips and pulp, and by fluctuations in currency exchange rates. Product selling prices are, in turn,

dependent on a number of factors including the general level of economic activity, residential and other construction and renovation activities, as well as the demand for wood, panel and pulp products. Slocan maintains the majority of its term

QUARTERLY INFORMATION \$Million, Except for Per Share Amounts

2002	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Sales	248.9	229.9	245.4	208.3	932.5
Net earnings (loss)	8.5	43.4	(12.3)	0.1	39.7
Net earnings (loss) – per common share					
Basic	0.22	1.18	(0.33)	0.00	1.07
Diluted	0.22	1.16	(0.33)	0.00	1.07
2001	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Sales	201.3	251.2	197.5	191.7	841.7
Net earnings (loss)	(22.2)	25.1	(8.0)	(20.1)	(25.2)
Net earnings (loss) – per common share					
Basic	(0.61)	0.68	(0.22)	(0.54)	(0.69)
Diluted	(0.61)	0.68	0.22	(0.54)	(0.69)

debt in fixed rate U.S. dollar borrowings, and a large portion of its sales are in U.S. dollars, which partially mitigates the impact of foreign exchange fluctuations on revenues.

As a general policy, Slocan has restricted its hedging and derivative transactions to forward sales of SPF lumber. These activities have been designed to partially hedge Slocan's exposure to decreases in lumber prices. The hedging did not have a material impact on its earnings for either 2002 or 2001 results.

Based upon the anticipated level of its operations in 2003, prevailing market prices and the changes in prices set out below, the sensitivities of Slocan's earnings from operations to price changes in its principal products and interest and foreign exchange rate changes are indicated in the "Sensitivity" table:

Sensitivity⁽⁵⁾	Change in Unit Price	Annual Change in Earnings (millions)
Lumber ⁽¹⁾	US \$10	\$26.3
Plywood ⁽²⁾	CDN \$10	\$2.7
OSB ⁽²⁾	US \$10	\$7.7
Wood Chips ⁽³⁾	CDN \$5	\$6.3
Pulp ⁽⁴⁾	US \$10	\$3.0
Exchange Rates (change of \$0.01 Cdn. relative to US \$1.00)	\$0.01	\$4.8

(1) Thousand foot board measure (MFBM)

(2) Thousand square feet (3/8" basis)

(3) Bone dry unit (BDU)

(4) Air-dried metric tonne (ADMt)

(5) Actual sensitivities will vary if volumes sold deviate significantly from anticipated levels.

In addition to price volatility, there are also risks and uncertainties for Slocan that arise as a result of its sales of wood products into the United States. From 1996 through March 2001, shipments to the United States from British Columbia were subject to quotas under a five-year softwood lumber agreement between Canada and the U.S., which expired on March 31, 2001. Lumber shipped in excess of each producer's allocation of quota-free volume was subject to duties that were set in the agreement. The Company's quota under the agreement, together with low lumber prices and an oversupply of lumber in North America, led to production curtailments at certain of its facilities in 2001.

The expiry of the softwood lumber agreement has resulted in the imposition of the CVD and ADD discussed under "Significant Events – Softwood Lumber Dispute" above and creates both risks and uncertainties for Slocan and other Canadian exporters of lumber to the U.S. market.

Although a resolution of the softwood lumber dispute between Canada and the United States may yet be negotiated, it is not possible at this time to assess the timing or likelihood of such an agreement or its potential terms. If the parties are unable to negotiate a resolution, Slocan and other Canadian forest companies will continue to make cash deposits for all U.S. lumber shipments from May 22, 2002. If a resolution is not achieved, the Canadian federal and provincial governments and the lumber industry will continue to aggressively defend the Canadian industry in this dispute, including appealing the decision of the U.S. administrative agencies to the appropriate courts, NAFTA panels and the WTO. These panels would not likely render a final determination of the dispute for more than a year.

After May 22, 2002, Slocan and other Canadian forest products producers are required to pay cash deposits for CVD and ADD under the determination issued by the USDOC and the USITC, with a corresponding increase in the cost of lumber sold by Slocan and other Canadian producers to the United States.

Slocan has exposure to credit risk on accounts receivable from customers. To manage this risk, Slocan closely monitors all of its accounts, including regular review and analysis of the financial position and credit limits of its customers. In certain offshore markets, Slocan requires bank letters of credit or utilizes credit insurance.

Other risks and uncertainties facing Slocan, as well as other forest product companies in North America and Europe, include pressures from special interest groups on forest products companies and their customers. Over the last several years these pressures have resulted in new resource and environmental regulations, government-sponsored initiatives to study new proposals relating to land use and resources, expropriation and compensation, requirements to reduce or eliminate certain types of effluent and emissions, changes in market demand for certain products and restrictions on operating activities. These pressures have led to the development of various registration and certification systems for the forest industry, which Slocan has achieved or is evaluating for future implementation.

Some parts of British Columbia in which Slocan conducts its logging operations are environmentally sensitive areas to which road building and deactivation, harvesting and related activities can be potentially harmful. Slocan undertakes intensive planning under applicable legislation and government land use strategies to ensure any adverse environmental effects are minimized and interested parties' concerns are appropriately addressed.

A portion of the timber supply for the Plateau and Quesnel Divisions comes from the extensive lodgepole pine forests of west central British Columbia. A major infestation of mountain pine beetles is currently sweeping through the area and in the short to medium term is affecting the amount and quality of lodgepole pine timber available for both operations. Additional volumes of timber are being made available by the Ministry of Forests as all forest companies in the area attempt to control the infestation. The Company's Quesnel Division was awarded a new forest license effective January, 2002 with an allowable annual cut (AAC) of 140,000 cubic metres and it is anticipated that more timber will be made available for the Plateau Division. The impact on the long-term timber supply is unknown at this time but it is expected that the species mix and products from Slocan's mills in this region will change.

The Forest Practices Code ("The Code") establishes mandatory requirements for forest practices in British Columbia, sets enforcement and penalty provisions and specifies independent audit requirements and appeal mechanisms. Contraventions of the Code can occur notwithstanding the planning and preventative measures undertaken by forest companies in British Columbia and remedial action and penalties can be imposed even in cases where a forest company is not negligent. Compliance with the Code initially increased operating costs and administrative requirements for companies such as Slocan and has resulted in delays in certain of its activities, both of which increase costs of operation.

In addition to the requirements of the Code, the Chief Forester of the Ministry of Forests conducts periodic detailed reviews of the timber supply in each of the 37 Timber Supply Areas and 34 Tree Farm Licences in British Columbia to determine new levels of AAC to be in effect for specified 5-year periods. The Ministry of Forests has also led a

process to develop regional land use plans and strategies. There has been no material reduction in the availability of wood to Slocan in any of its operating areas as a result of these processes. The impact of these reviews on the combined AAC for all of the areas managed by Slocan was not significant and any shortfall in 2000 and 2001 was made up through purchases from outside sources. A land use plan for the Kootenay-Boundary region of the Province, in which Slocan's Radium and Slocan operations are located took effect January 31, 2001. The plan reflects a combination of both economic and environmental objectives and is expected to result in some reduction in the overall AAC in the region, and possibly in some reduction in Slocan's AAC. The government has indicated the overall reduction in AAC for this region will not exceed 10%.

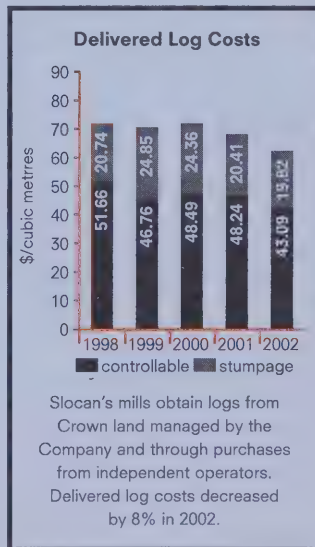
The government has adopted new legislation and announced its intention to make further changes to forestry legislation in order to reduce the regulatory burden of forest management, increase the volume of timber available in the open market and reduce the restrictions on long-term tenure holders in processing timber and in transferring cutting rights.

On December 17, 2002, amendments to the Forest Act and the Code came into effect to significantly reduce the regulatory burden and costs of compliance in forest management that resulted from the implementation of the Code in 1995.

The new legislation provides for a two-year transition period leading to a new Forest and Range Practices Act (the "FRPA"), which will be fully implemented between April 2003 and April 2005. The new legislation is intended to reduce the cost and time requirement of compliance with applicable standards by focussing more on results, being less prescriptive and allowing greater flexibility in forestry methods and reducing the number and frequency of plan submissions and reviews.

In addition to the new FRPA and amendments to the Code, various regulations pertaining to timber harvesting, silviculture, operational and site planning, forest roads, wood lot licences, community forest agreements and administrative remedies have been replaced or significantly revised. Significant changes have also been made in the area of penalties and defence to charges of non-compliance.

Changes to the Forest Act announced in March, 2003 include the enactment of the Forestry Revitalization Act (the "FRA")



which will provide for the reduction in AAC of replaceable licences under the Forest Act and compensation for such reduction. The FRA states that the AAC of identified licences are reduced by specified volumes (approximately 20% after allowing for the exemption of 200,000 cubic metres per licensee). Approximately half of this reduction in AAC, or 10% is intended to be reallocated for woodlots, community forests and First Nations with the balance being sold through the open markets. Slocan's reduction will be 813,612 cubic metres, to be attributed to one or more of nine replaceable Forest Licences and two Tree Farm Licences held by Slocan. The specific attribution may be determined by the Minister of Forests with input from licensees within three years of these provisions becoming law, on a retroactive basis to the time the legislation became effective.

Holders of affected licences will be entitled to compensation from the government for the reduction in AAC and affected infrastructure. Disputes as to value may be arbitrated. No other rights of action, including any claim under expropriation legislation, will be applicable to these reductions. At this time, \$200 million has been authorized for payment of compensation to all impacted licensees.

Pending further information and developments, including the regulations regarding determination of the value of harvesting rights, the amount of compensation to be paid, and the actual AAC to be reduced from various licences held by Slocan, as well as the effects of the AAC reduction on production or costs, cannot be determined or predicted at this time.

Under the proposed changes, existing cut control requirements will be modified to remove penalties for failing to cut a minimum volume of timber. Maximum cut requirements will continue to apply. Unharvested timber will however not be available to be carried forward for future cutting. Existing requirements to construct, operate, or maintain or to process timber at specified mills will be eliminated, to encourage the sale of the timber within British Columbia. Certain export restrictions on logs harvested from Crown timber will continue to apply and the timber will be required to be used or manufactured in British Columbia.

Licensees will be allowed to transfer or sell all or a portion of their licences without the presently applicable 5% reduction in

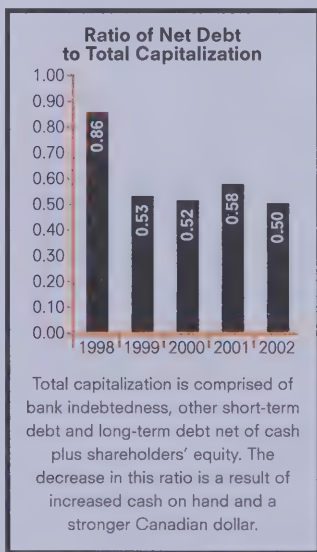
AAC and to subdivide or consolidate licences. The Ministry of Forests will require notice of transfers and review such transfers to ensure no undue restriction on competition.

The stumpage system will also be revised in conjunction with the reallocation of cutting rights and the increase in timber available for public auction. Prices from public auctions will be used to determine stumpage on all public timber, taking into account the obligations of long-term tenure holders such as reforestation.

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia including areas where Slocan's forest tenures and operations are situated. Provincial government policy requires that forest management and operating plans take into account, and not unjustifiably infringe on, aboriginal rights and title and provides for governmental consultation with aboriginal groups. Aboriginal groups have, at times, sought to restrict the Crown from granting or replacing forest tenures and other operating authorizations on lands claimed by them without their consent.

A decision of the Supreme Court of Canada in December 1997 confirming the continued existence of aboriginal title and rights in areas of British Columbia which are not subject to treaties has resulted in increased demands from aboriginal groups and increased uncertainties as to the status of

competing property rights, including existing forestry and other resource rights granted by the government. A recent decision of the British Columbia Court of Appeal held that a private forest company shares the Crown's duty to consult with aboriginal groups about potential infringements of aboriginal rights or title. As a result, the process of obtaining government authorizations for its operations, including related consultations with aboriginal groups, is at times slowed. However, Slocan believes that cooperative arrangements, including employment opportunities and business relationships based on mutually beneficial, sound economic principles, can facilitate these processes and has sought to establish such arrangements throughout its operations.



Outlook

The economic environment for Slocan's operations in 2003 will continue to be challenging. The ongoing softwood lumber trade dispute with the United States and the recently released British Columbia Forestry Revitalization Act are two significant issues that will continue to create uncertainty for the Company and the industry in general. As well, product supply and demand balances are expected to produce continued volatility in the pricing of the Company's products.

North American lumber prices have remained at low levels through the first quarter of 2003, increasing 8% above average price for the fourth quarter of 2002, but remaining 9% below the average for the 2002 year. Slocan expects lumber demand to improve at least through the building season in North America in the second and third quarters. Because of the uncertainty caused by the softwood lumber trade dispute and its impact on supply of lumber in North America, the outlook during the balance of 2003 is for continuing low lumber prices.

In the first quarter of 2003, OSB prices increased 5% over the average price in the fourth quarter of 2002 and 6% over the average for the 2002 year. Plywood prices for the first quarter of 2003 were virtually unchanged from the average for the 2002 year. Demand and prices for plywood and OSB are expected to trend higher with seasonal building activity.

Demand and prices for market pulp are expected to improve through the remainder of 2003. Improvement in world pulp markets

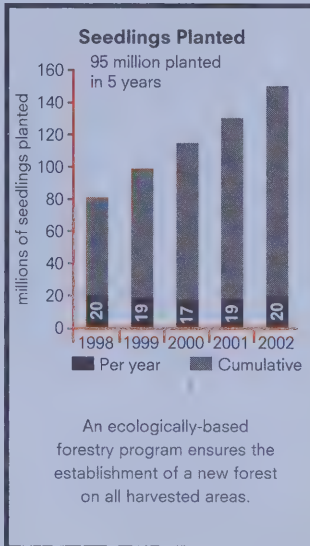
is expected to have a beneficial impact on prices of the Company's softwood and hardwood CTMP. The average US\$ mill net returns for the first quarter of 2003 increased 10% over the 2002 year. Wood chip prices are expected to improve with the anticipated increase in market pulp demand and price.

Virtually all of Slocan's sales of lumber, pulp and OSB are priced in US dollars. The Canadian dollar has appreciated 6% in the first quarter of 2003 over the average exchange rate in 2002. Slocan anticipates the Canadian dollar will retain its increased value relative to the US dollar through the year, which will have a negative impact on operating earnings.

In 2003, the Company will focus on margin improvement. In anticipation of strong demand for lumber and panel products in the North American housing sector, Slocan plans to operate its lower cost sawmills and panel manufacturing facilities throughout 2003. This,

combined with operational efficiencies in the woodlands areas, and the benefits of current and prior years' capital expenditure projects in the manufacturing facilities, will lower product costs from 2002 levels.

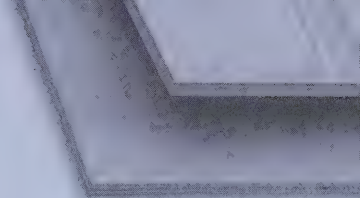
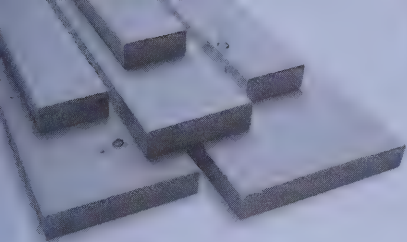
The potential impacts of the British Columbia Forestry Revitalization Act and other announced legislative changes on Slocan's operations and results cannot be determined until the related government regulations have been issued and evaluated. However, Slocan believes that the elimination of regulations such as cut control and apportionment will be positive.



Slocan Forest Products At a Glance

Slocan is one of Canada's largest producers of dimension lumber, laminated wood beams and wood chips and a significant producer of panel products and CTMP pulp. Almost 80% of the timber processed in its 10 sawmills, 1 plywood mill and 1 OSB plant are harvested from interior forestlands subject to long term forest tenure agreements with the provincial government. The environmental management system covering all forestlands managed by Slocan was registered to the internationally recognized certification standard ISO 14001 in 2001.





Lumber

10 sawmills

Annual production capacity:

1.8 billion board feet

Dimension lumber

Machine stress rated lumber

Studs

Boards

J-grade

Specialty lumber

Oriented Strand Board

1 manufacturing facility

Annual production capacity:

540 million sq. ft. (3/8" basis)

Plywood

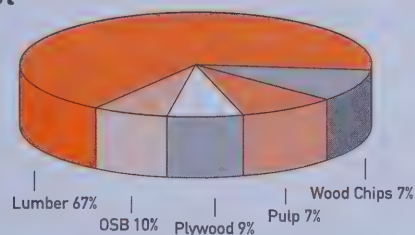
1 manufacturing facility

Annual production capacity:

280 million sq. ft. (3/8" basis)

Industrial and specialty products

2002 Revenue by Product



Wood Chips

Annual production capacity:

800,000 BDUs

Pulp

1 manufacturing facility

Annual production capacity:

220,000 tonnes

Softwood and hardwood CTMP pulp

Value added Lumber

1 manufacturing facility

Annual production capacity:

30 million FBM specialty lumber

20 million FBM finger jointed lumber

36 million FBM dry kiln capacity

35 thousand cubic metres laminated beams

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Annual Information Form

April 1, 2003

Certain terms used throughout this Annual Information Form are defined below:

"AAC" means allowable annual cut, the volume of timber which the holder of a tree farm licence, a forest licence or a timber sale licence may harvest under the licence in a given year;

"ADMt" means an air dried metric tonne of pulp with a moisture content of 10% or less;

"BDU" means a bone dry unit of oven-dried wood fibre, equivalent to 2,400 pounds;

"Common Shares" means any of the authorized common shares of the Company;

"Company" means Slocan Forest Products Ltd., a British Columbia company;

"CTMP" means chemi-thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical and chemical (non-chlorine) processes to break bonds between wood fibres;

"Fibreco Export" means Fibreco Export Inc., a British Columbia company in which Slocan has approximately a 21% equity interest;

"Finlay" means Finlay Forest Industries Inc., a British Columbia company;

"J-grade" means high quality dimension lumber specifically graded for the Japanese 2x4 house construction industry;

"Louisiana-Pacific" means Louisiana-Pacific Canada Ltd., a British Columbia company;

"MFBM" means 1000 foot board measure, a standard measurement for lumber (one FBM = a board 1" thick x 1' wide x 1' long);

"MSR" means machine stress rated, a method of rating the strength of lumber for use in building applications such as engineered roof trusses;

"OSB" means oriented strand board, a wood panel board product used in the construction industry which is manufactured from rectangular wood flakes alternating in 90 degree directions for each layer of panel in order to provide additional strength to each sheet of product;

"Plateau" means Plateau Forest Products Ltd., a British Columbia company which is a wholly owned subsidiary of the Company;

"Pulp Mill" means the CTMP mill owned by Slocan located in Taylor, British Columbia;

"Right" means a Common Share purchase right issued pursuant to the Company's Shareholder Rights Plan;

"Senior Notes" means the U.S. dollar denominated senior notes issued by Slocan;

"Slocan Group" means the British Columbia general partnership comprised of the Company, Tackama and Plateau;

"Slocan" means the Company and its subsidiaries, and, unless the context otherwise requires, includes Slocan Group;

"SPF" means spruce, pine, fir, an industry standard grouping of tree species;

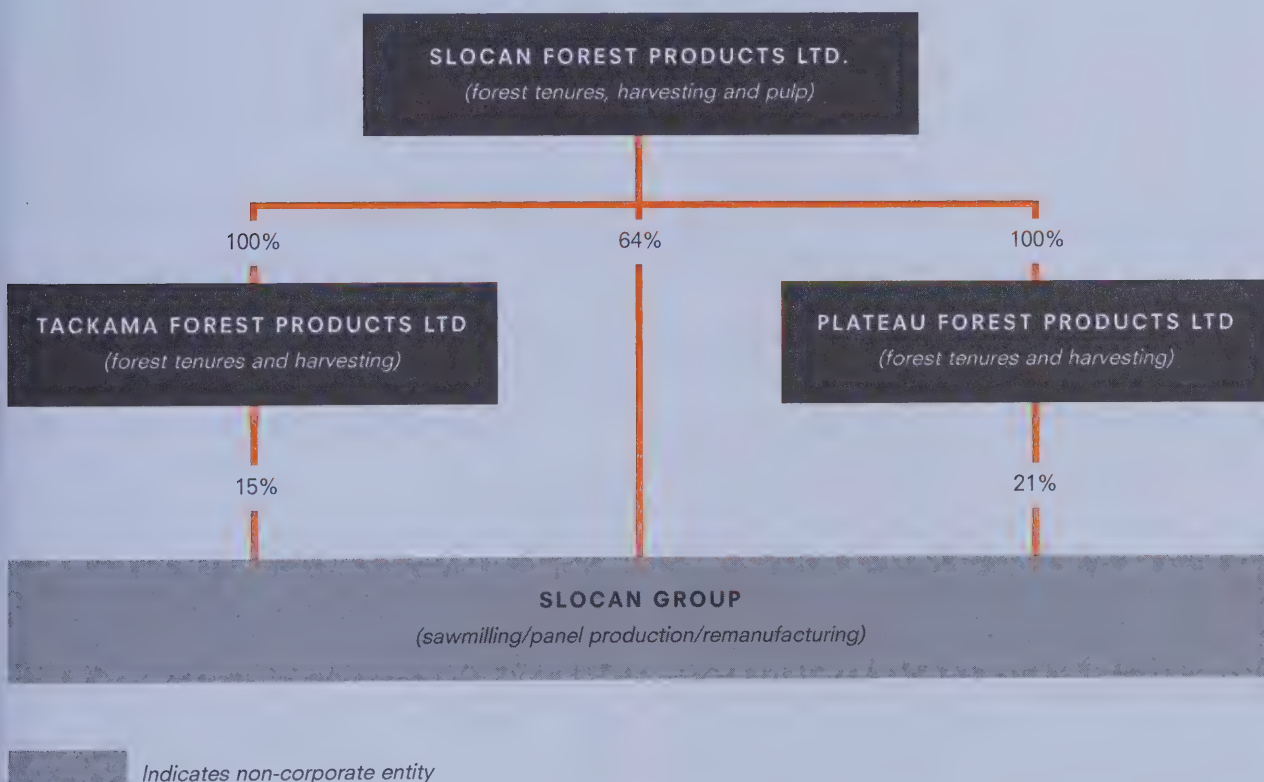
"Tackama" means Tackama Forest Products Ltd., a British Columbia company which is a wholly owned subsidiary of the Company.

THE COMPANY

The Company was incorporated on May 2, 1978, under the Company Act (British Columbia). Its principal and head offices are located at #300 - 10991 Shellbridge Way, Richmond, British Columbia, V6X 3C6. Its registered office is located at 1600 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The chart below shows the Company's principal operating subsidiaries and the interests of the Company in Slocan Group,

as well as their primary products or activities. The percentages on the chart refer to the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company (except for Slocan Group, where the percentages refer to the partnership interests held). Each of the companies shown below was incorporated under the Company Act (British Columbia). The agreement constituting Slocan Group is governed by the laws of British Columbia.



In June 2000, Slocan established a joint venture corporation, Slocan-LP OSB Corp., with Louisiana-Pacific. The joint venture is owned equally by Slocan and Louisiana-Pacific and has been established to construct and operate a new OSB plant in the Fort St. John area of British Columbia with an expected annual

production capacity of 700 million square feet of OSB on a 3/8 inch basis. (See "Lumber and Panel Manufacturing").

The Company also has other inactive subsidiaries as well as investments in certain other non-subsidiary corporations that are not shown on the chart above. See "Other Investments".

BUSINESS OF THE COMPANY

Profile of Slocan

Formed in 1978, Slocan is a major producer of forest products in British Columbia, with timber resources and production facilities throughout the interior region of the Province and a lumber remanufacturing facility near Vancouver. Slocan has rights to timber under forest tenures granted by the Province of British Columbia. (See "Timber Resources").

Slocan presently owns and operates ten sawmills, a plywood facility, an OSB plant and a pulp mill. The combined total annual production capacity of these facilities is approximately 1.8 billion board feet of lumber, 280 million square feet (3/8 inch basis) of plywood, 800,000 BDUs of wood chips, 540 million square feet (3/8 inch basis) of OSB and 220,000 ADMts of pulp. The Company also has a lumber remanufacturing and laminated beam facility in British Columbia which has an annual capacity to produce approximately 30 million board feet of specialty lumber and 20 million board feet of finger jointed lumber and to kiln dry approximately 36 million board feet of lumber. This facility is also able to produce approximately 35,000 cubic metres of laminated wood beams.

In June 2000, Slocan established a joint venture corporation, Slocan-LP OSB Corp., with Louisiana-Pacific. The joint venture is owned equally by Slocan and Louisiana-Pacific and has been established to construct a new OSB plant in the Fort St. John area of British Columbia. The plant is expected to have an annual production capacity of 700 million square feet of OSB on a 3/8 inch basis. Slocan-LP OSB Corp. has selected a site and obtained the required environmental and other permits and approvals to proceed with the construction and operation of the plant, including a project approval certificate under the Environmental Assessment Act (British Columbia). Timing for construction of the proposed OSB plant will be dependent on market conditions. The terms of Pulpwood Agreement No. 12 held by Slocan have been amended to require the joint venture to commence construction of the plant by 2004 and to achieve substantial production by December 31, 2006.

TIMBER RESOURCES

The timber supply for Slocan's sawmilling, OSB and plywood operations is obtained primarily by harvesting under long term forest tenures granted by the Province of British Columbia. Forest tenures presently held by Slocan provide for harvesting rights totalling approximately 5.1 million cubic metres of timber, including 610,000 cubic metres of timber Slocan has under a pulpwood agreement relating to its OSB plant in Fort Nelson. In addition, Slocan has the right to obtain timber sale licences to harvest up to 500,000 cubic metres of timber annually for use in connection with the proposed OSB plant to be constructed in the Fort St. John area by Slocan-LP OSB Corp. or for use in the Pulp Mill. (See "Pulp Operations".) Slocan also purchases timber for its operations, chiefly from operators under the British Columbia Small Business Forest Enterprise Program and private sources. See "Timber Resources - Log Purchases".

In 2002, Slocan obtained over 80% of the overall timber requirements for its facilities from its forest tenures. Total annual timber consumption by Slocan's operations in 2002 was approximately 6.7 million cubic metres (approximately 6.7 million cubic metres in 2001). The "Timber Resources" table shows the AAC and the actual cut by Slocan under its forest tenures as well as the volume of logs purchased by Slocan to supplement the timber supply for its operations for the last two years.

Forest Tenures

Approximately 95% of all timberlands in the Province of British Columbia are owned by the Crown. Subject to the British Columbia Forest Act, the Forest Practices Code of British Columbia Act, the Forestry Revitalization Act and related regulations, rights to harvest Crown timber are granted on behalf of the Crown in the form of forest tenure agreements. The forms of forest tenures held by Slocan are tree farm licences, forest licences and pulpwood agreements. Harvesting under these tenures is subject to the holder's compliance, to the satisfaction of the Ministry of Forests, with obligations regarding forest management, harvesting and reforestation.

A tree farm licence is an area-based forest tenure agreement that is granted for a term of 25 years and is replaceable after five years subject to satisfactory performance by the licensee of its harvesting and reforestation obligations. These licences are subject to the requirement to process harvested timber at a sawmill owned or operated by the licensee. The licensee undertakes to manage the forestlands within the tree farm

TIMBER RESOURCES

Thousands of cubic metres	2002	2001
Forest Tenures		
AAC		
Forest Licences ⁽⁵⁾	4,286	4,337
Tree Farm Licences	252	252
Pulpwood Agreements ⁽¹⁾	1,110	1,110
Total	5,648	5,699
Actual Cut⁽¹⁾⁽²⁾		
Forest Licences	4,795	4,719
Tree Farm Licences	237	144
Pulpwood Agreements	570	295
Total	5,602	5,158
Purchases		
Total	2,076	1,516

Notes:

(1) Includes a pulpwood agreement granted in connection with the PolarBoard Division's OSB plant, under which Slocan has the right to obtain timber sale licences to harvest up to 610,000 cubic metres of deciduous timber annually for use at that facility. See "Lumber and Panel Manufacturing - PolarBoard Division". Also includes a pulpwood agreement relating to the construction of the OSB plant. Slocan has the right to obtain timber sale licences to harvest up to

500,000 cubic metres of aspen and other deciduous timber annually for use in connection with the Pulp Mill or the proposed OSB plant to be constructed by Slocan-LP OSB Corp. in the Fort St. John area. See "Pulp Manufacturing - Taylor Pulp Division - Fibre Supply".

(2) All 2002 actual cut figures are estimates.

(3) Forest Licence A36096, with an AAC of 50,000 cubic metres, expired on November 30, 2002.

licence to produce an annual harvest in accordance with a management plan approved by the Ministry of Forests.

A forest licence is a volume-based forest tenure agreement that authorizes the harvest of a specified volume of timber each year within a particular timber supply area. Forest licences have a term of 15 years and most are replaceable every five years for the next 15 years, subject to satisfactory performance by the licensee of its harvesting and reforestation obligations.

A pulpwood agreement grants its holder a right to obtain timber sale licences to harvest timber, up to a specified maximum annual volume, from timber stands within a particular geographic area. A pulpwood agreement requires the holder to construct, expand or continue to operate a timber processing facility. It also requires the holder to acquire suitable raw materials for the facility which are available at reasonable prices from other operations in a particular geographic area. This requirement must be satisfied before the holder can obtain timber sale licences under the pulpwood agreement. Slocan's pulpwood agreements in both the Fort Nelson and the Fort St. John areas have 25 year terms, and are not replaceable.

Prior to the changes announced in March, 2003, the Forest Act provided for certain cut control restrictions as described below. The actual volume harvested under a tree farm licence and forest licence in any one year may vary up to 50% above or below its AAC. The volume harvested over a five-year period may vary within 10% of the total allowable harvest level for that five-year period. Over-cuts at the end of the five year cut control period may result in a reduction in the allowable harvest level in the next five year period and, if above 10%, are subject to two times average stumpage in penalties on the amount over-cut. Undercuts of more than 10% in the five year period may result in a reduction of AAC. Relief from AAC reductions may be granted if an undercut has resulted from circumstances beyond the control of the licence holder. Undercuts in a 5 year cut control period may also be carried forward into the next 5 year period under some circumstances.

As required by the Forest Act, as of December 31, 1996, the provincial Chief Forester determined an AAC for each tree farm licence, and the Crown land in each timber supply area, in the Province. He is required to repeat such determination every five years. The Chief Forester also has the option of postponing a determination of AAC for a period of up to 10 years after the

last determination if he determines that the AAC will not change significantly from the previous determination. The AAC reflects harvesting practices in the previous five years, the timber conditions, regional and local economic and social interests and environmental considerations for these licences and areas. The impact on Slocan of these determinations has not been material and is not expected to adversely affect its operations.

The Forest Act provides for a 5% reduction in the AAC upon change of ownership of a tree farm licence or replaceable forest licence or timber sale licence or a change in control of the holder of such a licence which is consented to or deemed to be consented to by the Minister of Forests. If such a change of ownership or change of control occurs without consent, the Minister may cancel the tenure without compensation or may deem consent to have been given and impose requirements and conditions. The Government of the Province of British Columbia has confirmed that tenure holders which implement certain job creation plans at their operations may be eligible for a reinstatement of this 5% reduction in AAC.

The Government has adopted new legislation and announced its intention to make further changes to forestry legislation in order to reduce the regulatory burden of forest management, increase the volume of timber available in the open market and reduce the restrictions on long term tenure holders in processing timber and in transferring cutting rights. For a discussion of the nature of these changes and the impact on Slocan, see the "Risks and Uncertainties" section of the "Management's Discussion and Analysis of Financial Results" section of this Annual Report for 2002 which is incorporated by reference herein.

Aboriginal Issues and Relationships

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Slocan's forest tenures and operations are situated. Provincial government policy requires that forest management and operating plans take into account and not unjustifiably infringe aboriginal rights or title and provides for consultation with aboriginal groups. Aboriginal groups have, at times, sought to restrict the Crown from granting or replacing forest tenures and other operating authorizations relating to tenures on lands claimed by them.

The *Delgamuukw* decision of the Supreme Court of Canada in December 1997, which confirmed the continued existence of aboriginal title and rights in areas of British Columbia which are not the subject of treaties, has resulted in increased demands from aboriginal groups. The decision has also resulted in

uncertainty as to the status of competing property rights, including existing forestry and other resource rights and land uses. In 2002, the British Columbia Court of Appeal extended the responsibility to a private forest company to consult with aboriginal groups about potential infringements of their aboriginal rights or title arising from the transfer and renewal of a forest tenure. In another case, the British Columbia Supreme Court held that the Province had a duty to consult affected aboriginal groups prior to approving a change in control in the holder of a tree farm licence. The Crown must consult with an aboriginal group whenever there is a reasonable prospect that a decision of the Crown will infringe the group's aboriginal rights or title.

The impact of aboriginal rights and title on competing third party rights, and the related obligations imposed on third parties, are not expected to be resolved or clarified in the near future. Pending resolution of these issues, either through court actions or negotiated treaties, Slocan expects that the process of obtaining government authorizations for its operations, and related consultations with aboriginal groups, may at times be delayed. However, Slocan believes that cooperative arrangements with affected aboriginal groups, including employment opportunities and business relationships based on mutually beneficial and sound economic principles, can facilitate these processes. Slocan also believes that close cooperation with the Province can assist in ensuring that consultation obligations are discharged in respect of any Crown approvals required by Slocan.

In an effort to resolve outstanding aboriginal land claims within the Province, the governments of British Columbia and Canada have to date been engaged in a process of treaty negotiation with aboriginal groups. Some of these groups have withdrawn from negotiations since the *Delgamuukw* decision and commenced litigation to pursue their claims. None of this litigation has been commenced with respect to any of Slocan's operations.

A treaty has been completed between the Nisga'a Nation and the governments of Canada and British Columbia. It was ratified by the Nisga'a Nation, and legislation granting approval by the governments of Canada and British Columbia, and bringing the treaty into effect, was passed in early 2000. The Nisga'a Treaty provides for the grant of fee simple title to a portion of the land within the traditional territory claimed by the aboriginal group and the payment of compensation. It also provides for the Nisga'a government to have defined law-making powers over its lands and its members.

It is the policy of the British Columbia government that lands held in fee simple by third parties will not be affected by treaty

negotiations and that the Province will respect the terms of all legal interests in Crown lands and resources including leases and licences. However, where there are legal interests in Crown lands which, under a treaty, become treaty title lands, and where those legal interests have termination dates, or are subject to extensions or replacements, the Province will likely decline the grant of further interests, extensions or replacements, but will consider compensation. The Nisga'a Treaty contemplates that future rights and interests within the treaty title lands will be subject to negotiation with the Nisga'a government and to potential payment of fees, royalties and other charges to the Nisga'a government.

The Nisga'a Treaty does not cover lands on which Slocan has any operations or forest tenures. However, in north-eastern British Columbia, treaty negotiations are progressing between the Kaska Dene Council and the governments of Canada and British Columbia. Some of Slocan's operations and forest tenures in northern British Columbia are located within the traditional territory claimed by the Kaska Dene Council. Slocan has been providing employment and business opportunities for the Kaska Dene in its woodlands and manufacturing operations for many years and since March 1998, Slocan and the Kaska Dene Council have been working together pursuant to a letter of intent to address mutual needs and interests. Slocan is optimistic that it can also develop this type of mutually beneficial arrangement with aboriginal groups in its other operating areas throughout the interior of the Province.

In 2001, Slocan, Louisiana-Pacific and Slocan-LP OSB Corp. entered into memoranda of agreements (the "MOA") with five of the First Nation signatories to Treaty 8 in northeastern British Columbia. The MOA relates to the conduct of forestry operations by Slocan and Louisiana-Pacific in the Dawson Creek and Fort St. John Forest Districts and the operation of the proposed OSB plant at Fort St. John. The MOA provide for a process of cooperative development and review of forestry plans for Slocan's and Louisiana-Pacific's tenures, as well as training and employment and contracting opportunities for First Nations members.

To date, neither the ongoing treaty negotiations nor aboriginal land claims have had a significant impact on Slocan's forestry operations nor the grant or replacement of its forest tenures and other operating authorizations, and all of its operating divisions continue to work with local aboriginal groups on business and employment opportunities.

Forest Management

Slocan is responsible for forest management on Crown lands covered by its forest tenure agreements.

Slocan's forest management activities on its tree farm licences are carried out in accordance with management plans that are submitted to the Ministry of Forests every five years and are subject to the Ministry's approval. These plans include proposed areas of harvesting, management objectives and strategies for meeting these objectives. Harvesting in any area is subject to Ministry of Forests approval of a forest development plan for the area.

Slocan carries out its forest management responsibilities through a staff of registered professional foresters and forestry technicians. Slocan's forestry staff supervises all aspects of forest management including Slocan's planning, road development, harvesting, reforestation and forest protection programs, as well as its programs to increase the yield of its forest lands and improve the quality of its timber resources.

To assist the Ministry of Forests in protecting forest resources, Slocan maintains a fire prevention and suppression organization at each of its divisions. Slocan and the Ministry of Forests undertake regular surveillance activities to detect and appraise the presence, extent and significance of any forest insect or disease outbreak in its forest tenures or areas of operation. Slocan, together with other British Columbia forest companies, is presently working with the Ministry of Forests to address the mountain pine beetle infestation of certain central interior forests in British Columbia. The Ministry and industry participants have been cooperating to identify infested areas and to implement counter measures to reduce the impact of the infestation. The Provincial Government has formulated a strategic action plan to respond to the infestation. The plan includes the appointment of a beetle management coordinator and the establishment of emergency management zones that will allow faster harvesting of infested timber. Neither the pine beetle infestation nor any other forest insect or disease outbreak is currently creating any economically significant problems for Slocan. The AAC in some infested areas has been temporarily increased by the Ministry of Forests and is resulting in an increase in the volume of wood available to Slocan and other licencees. For further discussion of the pine beetle infestation, see the "Management's Discussion and Analysis of Financial Results - Risks and Uncertainties" section of this Annual Report for 2002.

The Forest Practices Code of British Columbia Act (the "Code" or the "Forest Practices Code") sets out a code of conduct for Crown forest tenures designed to protect fisheries, wildlife, biodiversity, cultural heritage, forest soils and special management zones. The Code also establishes detailed

planning procedures and sets requirements for forest practices applicable to both licencees and the Crown. To encourage compliance with its provisions, the Code contains a system of penalties for contraventions, including AAC reductions. The severity of any penalty is dependent on the nature and frequency of contraventions.

Although a number of compliance issues arose for Slocan's forestry operations during 2002, including achieving free-growing stands within the prescribed period for one of its northern operations which was acquired in 1989, none of these were material, and its operations were conducted in substantial compliance with the Code. Slocan did not experience any material increase in costs related to the Code in 2002. This was achieved largely due to the familiarity of Slocan's personnel with the requirements of the Code gained over the last few years as well as reductions by the government in the Code's administrative burdens on licencees.

In view of the extent of the problems and costs which the forest industry has incurred as a result of the Code's implementation, the provincial government amended the Code on December 17, 2002, in part, to reduce the cost of compliance. The provincial government, together with representatives of the forest industry, continue to consider further modifications to the Code. The provincial government has also passed the Forest Practices and Range Act which will replace the Code in the next two years. Slocan is continuing to participate in certain pilot projects, research projects and programs initiated by the B.C. government in the interior regions of the province. These projects and programs are designed to identify and implement on a trial basis alternative and more efficient means of managing forest resources but still provide resource protection equivalent to that contemplated by the Code.

Slocan has also entered into arrangements to develop and test new forest management techniques to aid in the management of the forest resource.

Forest Certification

Environmental awareness and concern about the sustainability of global forest management practices has led to the development of various registration and certification systems for the forest industry. Systems currently being applied in British Columbia include those developed by the International Organization for Standardization ("ISO"), Canadian Standards Association ("CSA"), the Forest Stewardship Council and the Sustainable Forestry Initiative ("SFI").

Slocan's own forestry environmental management system covers all forestry activities, including road construction, harvesting and silviculture and stresses local accountability and responsibility for meeting all regulatory requirements. Local reviews are supplemented with regular audits involving outside consultants. Following an extensive independent audit of Slocan's forestry environmental management system by the Quality Management Institute, a division of the CSA, Slocan's system was registered under ISO 14001 in July, 2001. The ISO 14001 registration covers all of Slocan's interior forestry operations supplying timber to its 10 sawmills, its OSB plant and the Tackama plywood mill.

The Ministry of Forests has been developing a province-wide environment management system for the Small Business Forest Enterprise Program to meet ISO 14001 registration requirements. See "Timber Resources - Log Purchases". A portion of Slocan's fibre requirements is met through purchases from independent operations working under the Small Business Forest Enterprise Program. Certification initiatives by the Ministry of Forests are not expected to have a material impact on wood supply from this source.

Stumpage Charges and Reforestation

Stumpage charges are assessed by the Province of British Columbia on Crown timber harvested under the various forms of forest tenure based on a pre-determined revenue target for the overall harvest in the Province. The stumpage charges are determined through an appraisal of timber in each area that will be harvested.

In 2002, Slocan paid \$97.9 million (\$19.82 per cubic metre) in stumpage compared to \$91.5 million (\$19.62 per cubic metre) in 2001. In 2002, the Company's reforestation expenditures were \$19.6 million for areas logged during the year compared to \$19.9 million in 2001.

The Government has announced new legislation in order to move to a more market-based stumpage system. For a discussion of the nature of these changes and the impact on Slocan, see the "Risks and Uncertainties" section of the "Management's Discussion and Analysis of Financial Results" section of this Annual Report for 2002.

Timber Harvesting

Timber harvesting includes road construction, logging, and log transportation to Slocan's facilities. It is done almost exclusively by independent contractors under Slocan's

supervision to ensure compliance with the terms of its forest tenures its environmental management system, and the Forest Practices Code. The majority of these independent contractors have provided services to Slocan's operations for an extended period of time.

Log Purchases

Slocan supplements the supply of timber from its forest tenures by purchasing logs from operators under the Small Business Forest Enterprise Program and from other private sources. Under the Small Business Forest Enterprise Program, the Ministry of Forests makes certain volumes of timber available each year to small operators. Timber cut by smaller operators in areas adjacent to Slocan's sawmills is often purchased by Slocan and used to supplement the timber supply available to those mills under its forest tenures.

PRODUCTION VOLUME SUMMARY

The volumes of products produced by Slocan's facilities for the last two years are set forth below.

Production Volumes⁽¹⁾

Years ended December 31	2002	2001
Lumber	1,620	1,383
Plywood	252	229
OSB	498	475
Pulp	169	156
Wood Chips	1,018	858

Notes:

(1) Figures for lumber are in millions of board feet; plywood and OSB production are in each case in millions of square feet on a 3/8 inch basis; wood chip production is in thousands of BDUs; and pulp production is in thousands of tonnes.

Slocan's lumber and plywood operations generally operate two 8 hour shifts and two 12 hour shifts per day respectively and approximately 250 days per year. The PolarBoard Division's OSB plant and the Pulp Mill generally operate continuously 24 hours per day and approximately 335 days per year.

Sawmill production was curtailed at all mills during 2001 due to quota constraints on shipments of lumber to the United States and lumber and plywood production was curtailed at all mills in 2001 and 2002 due to low lumber prices in North America. See "Solid Wood Sales and Marketing – Countervailing and Anti-Dumping Duties".

Operations at the Valemount and Slocan Divisions were indefinitely curtailed in August, 2002.

LUMBER AND PANEL MANUFACTURING

Slocan presently owns and operates ten sawmills, one plywood facility and one OSB facility in the interior region of British Columbia. The total annual combined productive capacity of these facilities is approximately 1.8 billion board feet of lumber, 280 million square feet (3/8 inch basis) of plywood, 540 million square feet (3/8 inch basis) of OSB and approximately 800,000 BDUs of wood chips. Dry kilns and planing facilities are located at each of Slocan's sawmills, providing it with sufficient kiln and planing capacity to meet its production needs.

The majority of lumber produced by Slocan's mills is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A growing portion of Slocan's lumber production is specialty products that command premium prices and includes MSR lumber that is used in engineering applications such as trusses and floor joists. Other specialty products include J-grade lumber for the Japanese market, precision cut components used in Japanese house construction, furniture stock and long length lumber.

Slocan operates both an OSB plant and a plywood mill in Fort Nelson, British Columbia. A continuous program of capital improvements at both operations over the last five years has led to increased production volume and the manufacture of a wider variety of products to better utilize the timber resource found in northern British Columbia.

Slocan also owns a custom remanufacturing and kiln drying facility near Vancouver that provides services to many British Columbia forest companies. This operation has an annual capacity to produce approximately 20 million board feet of finger jointed lumber, to kiln dry approximately 36 million board feet of lumber, and to remanufacture approximately 30 million board feet of lumber. In 2000, Slocan completed the construction of a laminated beam facility at the Uneeda Wood Products Division with an annual capacity of 35,000 cubic metres per year of laminated beams.

Slocan's practice is to strategically invest funds in its manufacturing facilities to increase operating capacity, increase lumber, chip and panel recovery, lower manufacturing costs and produce higher value products in order to efficiently utilize the forest resource available in each facility's area of operation. Over the past five years Slocan has invested a total of \$119 million in constructing, modernizing and improving its lumber and panel facilities. See "Capital Expenditures and Investments".

Production Facilities

The following is a summary description of each of Slocan's lumber and panel manufacturing facilities:

Tackama Division

The plywood plant and sawmill of Slocan's most northerly division are located in Fort Nelson, with both facilities having access to a diverse timber supply from the northern boreal forests.

The plywood facility processes a mix of spruce and aspen timber to produce a range of products used in industrial, commercial, residential and specialty plywood applications. Mill capacity was increased to 280 million square feet in 1999 with the installation of a second lathe to feed the single plywood lay-up line. Further process and equipment improvements will increase 2003 plywood production levels resulting in an expansion of U.S. business and industrial sales.

The sawmill is a stud mill with two small-log lines feeding a planer and an automated lumber handling system. This mill produces studs for the domestic and export markets. Increased emphasis on J-grade and other export products will lead to an expansion of export sales in 2003.

PolarBoard Division

Slocan's Fort Nelson OSB plant produces panel products with a variety of thicknesses and sizes from aspen timber found throughout the northern region of the Province of British Columbia. This plant uses primarily pure aspen timber to produce a consistent high quality product, which is a feature shared by only a few OSB producers in North America. In 2001, two additional platons were installed in the press. The full benefit of this additional press capacity will be realized in 2003 with a planned production increase to 531 million square feet.

Plateau Division

Situated west of Prince George, the Plateau Division sawmill sources its timber supply primarily from the stands of lodgepole pine found in the central interior. Historically a relatively low cost source of timber, costs have declined even further as industry and government continue an aggressive campaign to control the Mountain Pine Beetle.

With added shifts, utilizing the new dry kiln capacity and a focus on cost reductions, the Plateau mill has maintained its position as one of the largest operations in the world. The new waste wood burning heat energy system is designed to reduce natural gas requirements by 90%.

Quesnel Division

The two Slocan sawmills in Quesnel, are benefiting from increased volumes of low cost fibre from the lodgepole pine stands of central British Columbia. Newly installed dry kiln capacity and triple shift operation is expected to further decrease costs. The dimension sawmill and planer mill will be rebuilt in 2003 to position it as one of the lowest cost producers in British Columbia.

Valemount Division

Operations at the Valemount Division were indefinitely curtailed in August, 2002. No time frame for restarting this operation has been established.

Vavenby Division

The Vavenby sawmill is a mid-size operation within the Slocan mills with a capacity of 195 million fbm. Its market niche is long length dimension lumber which usually commands a premium price in North American markets. Mill returns are further enhanced by the production of Douglas fir lumber which is available from the diverse timber species in the area.

Mackenzie Division

With an annual production capacity of 485 million fbm, Slocan's Mackenzie Division is the largest sawmilling facility in the Company and one of the largest in the world. A new planer mill installed in 2001, improvements in operational efficiencies throughout the mill and woodlands and other minor capital improvements have resulted in a 70% increase in production since the sawmill was acquired 5 years ago. The mill is a major producer of MSR and J-grade lumber. More than 90% of its required timber supply is available through long term tenure agreements with the Province of B.C.

The Mackenzie facility also contracts with nearby independent value-added companies to produce finger-joint studs as well as export and other higher-grade products. Under a long-term chip supply agreement, a local pulp mill purchases all of the wood chips from the Mackenzie sawmill.

Radium Division

The Radium sawmill, after the installation of an additional small log line in 2002, has been modified to be a mill with an annual production capacity of 190 million fbm per year. The mill's strength is its ability to produce a high percentage of MSR lumber by following a value-based log supply strategy of delivering a specific profile of logs best suited to the mill's equipment.

Slocan Division

Like Slocan's Valemount sawmill, the Slocan Division sawmill was curtailed in August 2002 because of its inability to operate at a profit. A new business plan has been developed for this operation to turn it into a specialty mill producing a higher percentage of high value products for both North American and export markets. The Division resumed operations early in 2003.

Uneeda Wood Products Division

Slocan's Uneeda facility offers custom lumber remanufacturing and kiln drying services to a wide range of British Columbia lumber manufacturers. The operation consists of moulding and planer lines, a vertical twin band re-saw, various chopping and sorting equipment, two finger joint facilities and 12 dry kilns. A state of the art laminating facility can now produce laminated beams for export and domestic markets. The mill will expand its arrangements with Slocan sawmills to diversify product lines and access new markets such as the traditional Japanese housing business. Other new initiatives include, developing a 2 x 4 premium finger jointed stud program for targeted customers and regions in the US.

ENERGY

The energy requirements of Slocan's kiln drying facilities are supplied primarily by energy systems which use wood residue (45%) as well as propane and natural gas. During the last quarter of 2001 and early 2002, the Company spent approximately \$5 million for a wood waste heating system to provide heat for the Plateau Division's kilns, replacing natural gas to reduce manufacturing costs.

SOLID WOOD SALES AND MARKETING

Lumber and Panel

Slocan sells its lumber and panel products into the United States, Canadian and Asian (principally Japanese) markets, on a delivered basis. Slocan utilizes a combination of trucks, rail and intermodal rail to move lumber and panel products to market. With geographically diverse origins, distinct freight advantages are leveraged to select markets for each mill. Slocan works closely with its transportation suppliers to get maximum incremental value delivering product into the market place.

Overseas lumber and panel markets are served through an arrangement with an independent firm that loads containers and transfers them to the docks. The quality of the handling, on-time delivery to the docks, inventory control and management are integral to Slocan's success in the export marketplace. In 2002, Slocan's shipments to the United States accounted for 73% of total lumber shipments (70% in 2001).

Countervailing and Anti-Dumping Duties

For a discussion of the countervailing and anti-dumping duties imposed on Slocan in connection with the softwood lumber dispute with the United States, see the "Significant Events" and "Risks and Uncertainties" sections of the "Management's Discussion and Analysis of Financial Results" section of this Annual Report for 2002, which is incorporated by reference herein.

Plywood

Plywood produced at the Tackama mill in Fort Nelson is sold to North American markets. Products are shipped by truck or rail to domestic customers depending on their proximity to the mill and by ship to offshore customers. In 2002, approximately 91% (approximately 86% in 2001) of Slocan's plywood production was sold in Canada and the majority of it was shipped to Eastern Canada by rail. Approximately 59% of the plywood production for 2002 (approximately 61% in 2001) at the Tackama mill was sold to four customers.

Oriented Strand Board

Approximately 62% of Slocan's 2002 OSB production (approximately 61% in 2001) was sold in the United States. In 2002, approximately 37% (approximately 35% in 2001) of the OSB produced at Slocan's PolarBoard plant was sold pursuant to arrangements entered into with one major customer in the United States. The OSB is shipped primarily by rail to customers in North America and by ship to customers in Asian markets.

Wood Chips

Wood chips are a significant part of Slocan's production and revenue stream. The wood chips produced at Slocan's sawmills and plywood mill are sold to various domestic pulp mills and to Fibreco Export and are shipped by rail and by truck. In 2002, Slocan sold an aggregate of 1,017,948 BDUs of wood chips (857,834 BDUs in 2001) for total proceeds of approximately \$62.1 million (\$69.8 million in 2001).

Approximately 71% (73% to four customers in 2001) of Slocan's 2002 wood chip production was sold to three principal customers in British Columbia.

In February 1995, Slocan Group entered into a ten year wood fibre contract for the supply of hog fuel, sawdust and wood chips to a B.C. pulp operator at market prices that are adjusted quarterly. The wood chip volume is for an aggregate of 1.3 million BDUs over the term of the contract, or approximately 13% of Slocan's total 2002 annual chip production (17% in 2001).

Wood Products Sales and Distribution

The following table shows the distribution of sales revenues from Slocan's sawmills and panel facilities by major wood product and region for the last two years:

Years ended December 31

<i>(In thousands of dollars)</i>	2002	2001
Lumber	\$ 628,278	\$ 551,548
Plywood and veneer	89,544	74,975
OSB	87,404	83,952
Wood chips ⁽¹⁾	62,071	67,776
Total	\$ 867,297	\$ 778,251
United States	\$ 492,619	\$ 444,544
Canada	221,009	190,698
Asia	153,669	143,009
Total	\$ 867,297	\$ 778,251

Note:

(1) Includes wood chip sales to Fibreco Export and hog fuel and sawdust sales. See "Other investments - Fibreco Export Inc."

Research and Development

Slocan contributes to and participates in the industry-supported organizations Forintek Canada Corp. (wood products research) and the Forest Engineering Research Institute of Canada (harvesting and silviculture research). Slocan is also committed to development efforts in its operations, including continuing improvements in the areas of health and safety, product development, higher-value utilization of timber resources and market development.

PULP OPERATIONS

Taylor Pulp Division

The Company owns and operates a CTMP pulp mill which comprises the Taylor Pulp Division operations.

Pulp Mill

The Pulp Mill's rated production capacity is 220,000 ADMts of pulp per year based on 24 hours per day and 348 operating days per year. In 2002, production was 169,469 ADMts as compared to 156,200 ADMts in 2001.

The mill has a two-line configuration with the capability to manufacture pulp products ranging from high brightness tissue and towelling grades to low brightness newsprint grades. Since mid-2000, the Pulp Mill has been able to produce high bright grades of aspen (hardwood) pulp (including grades of up to a brightness of 85% ISO) which at certain times commands premium prices relative to softwood grades.

The mill utilizes a CTMP process characterized by highly efficient utilization of wood fibre and the use of hydrogen peroxide for bleaching. For comparison, the amounts of pulp produced or pulp yield from each unit of wood chips is approximately double that achieved through the kraft pulping process. The use of hydrogen peroxide for bleaching permits the total elimination of chlorine and chlorine compounds from the manufacturing process. These two features are highly attractive in an increasingly environmentally conscious world market.

The mill is located at Taylor, British Columbia, which gives it access to a chip supply comprised of high quality northern white spruce and aspen for the production of both softwood and hardwood CTMP. In addition, the mill's access to both species and production flexibility gives the mill the ability to develop new pulp applications for particular consumers.

During 1999, Slocan was successful, with the assistance of the B.C. Job Protection Commission, in developing an economic plan which enabled Slocan to maintain operations at its Pulp Mill through a period of depressed conditions in the pulp industry. This plan involved the participation and co-operation of several parties in restructuring or deferring certain costs such as property taxes, rail transport and electricity. This included the deferral of \$9.3 million of energy costs based on a formula tied to pulp prices, chip prices and mill operating rates. Under the plan, energy costs in future years will be based on the prevailing price of pulp and mill

operating rates, which may result in higher energy costs as pulp markets improve, and will continue until such higher costs offset the cumulative benefit received through this deferral.

Fibre Supply

All of the softwood chips required for the Pulp Mill's operations come from Slocan mills. Slocan holds a pulpwood agreement which entitles Slocan to obtain timber sale licences to harvest up to 330,000 cubic metres of timber per year in connection with the proposed OSB plant to be constructed in the Fort St. John area by a joint venture company owned equally by Slocan and Louisiana-Pacific and 170,000 cubic metres per year in connection with the Pulp Mill.

In late 2002, a weigh scale and whole log chipping facility were installed adjacent to the Pulp Mill. Deciduous pulp chips produced by this facility will provide a portion of the annual mill requirements from logs purchased locally and obtained from timber sales under the pulpwood agreement.

Marketing and Distribution

Slocan directs the world-wide sales and marketing of all pulp produced by the Pulp Mill in conjunction with Ekman and Co. A.B. ("Ekman"), an international sales and marketing firm, under an exclusive agency agreement. Ekman has offices around the world serving major markets and is further represented by accredited sub-agents.

Ekman acts as exclusive agent for sales outside British Columbia of all pulp produced by the Pulp Mill. Ekman is engaged under an agreement which extends to May 31, 2005 and provides for the sale of approximately 200,000 ADMt per year with a variable commission rate based on prevailing pulp prices and achievement of certain targets and minimum quantities.

The Pulp Mill has developed a world-wide customer base. Although all sales by the Pulp Mill are on a current market price basis, a majority of the volume is sold to repeat customers. In 2002, approximately 63% (approximately 49% in 2001) of the total pulp production was sold to three customers. No other single customer accounted for more than 10% of annual sales. Approximately 79% of the Pulp Mill's pulp was sold to customers in Asia in 2002 (approximately 70% in 2001).

The Pulp Mill utilizes rail for chip delivery and pulp shipments. Rail networks connect the Pulp Mill to points in Canada and the United States. Domestic North American customers are served by direct rail or truck delivery, although only a minor amount of pulp is transported by truck due to high transportation

costs. Pulp destined for offshore markets is transported by rail for loading onto deep-sea vessels at Squamish and Vancouver, British Columbia.

Geographic Distribution of Pulp Sales

The following table shows total sales revenues of the Pulp Mill and the distribution of sales by geographic region for the last two years:

Years ended December 31		
(In thousands of dollars)	2002	2001
Asia	\$ 52,377	\$ 44,565
United States	1,510	1,374
Canada	744	239
Other Offshore Markets	10,556	17,317
Total Pulp Sales	\$ 65,187	\$ 63,495

TRENDS, COMMITMENTS, EVENTS OR UNCERTAINTIES

For a discussion regarding changes to Slocan's business expected in 2003 and known trends, commitments, events or uncertainties, see the "Significant Events", "Risks and Uncertainties" and "Outlook" sections of the Management's Discussion and Analysis of Financial Results" section of this Annual Report for 2002, which is incorporated by reference herein.

COMPETITIVE POSITION

Each of the markets in which Slocan sells lumber, panel and pulp products is highly competitive with many major firms in each market. Slocan's competitive position is influenced by the availability, quality and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors. Slocan, like the rest of the Canadian forest products industry, competes in an international market and is therefore subject to the impact of currency fluctuations and global business conditions. See "Solid Wood Sales and Marketing – Countervailing and Anti-Dumping Duties". Many of Slocan's lumber and panel products also compete with substitutes for wooden building materials of various kinds. As well as competing with other CTMP producers, the Pulp Mill's

CTMP products compete with soft wood bleached kraft pulp in the tissue markets and hardwood bleached kraft and recycled pulp in the printing paper markets.

OTHER INVESTMENTS

Fibreco Export Inc.

Fibreco Export is a wood chip exporting and marketing company owned by a number of sawmill companies that have operations in the interior of British Columbia. Fibreco Export was formed in 1977 for the purpose of exporting surplus wood chips produced by the owners' various sawmills. In 2000, Fibreco Export was restructured. As a result of the restructuring, Slocan directly holds a voting and equity interest of approximately 21% in Fibreco Export. Prior to the restructuring, Slocan held a 22% non-voting equity interest (4.2% voting).

In 2002, approximately 7.7% of Slocan's wood chip sales were made to Fibreco Export (6.4% in 2001). Fibreco Export owns and operates a wood chip export facility in Vancouver harbour that has an annual capacity of between 900,000 and 1,000,000 BDUs. In 2002, throughput at the facility totalled 497,000 BDUs (563,000 BDUs in 2001).

Forest Fibre Incorporated

Slocan owns a 65% interest in Forest Fibre Incorporated, a British Columbia company, which purchases logs and operates a small portable whole log chipper, and acts as a reseller of logs, wood chips and other wood by-products.

Accounting Treatment

Slocan accounts for its investments in each of Fibreco Export and Forest Fibre Incorporated using the equity method. See Note 4 to the Consolidated Financial Statements of the Company.

HUMAN RESOURCES

Slocan employs 2,500 people. Approximately 1,500 are covered by collective agreements with the IWA - CANADA and approximately 350 are covered by collective agreements with the Pulp, Paper and Woodworkers of Canada ("PPWC"). The collective agreements with the IWA and the PPWC are 3 year agreements that expire on June 30, 2003.

The collective agreement with the IWA covering Uneeda was renewed for a 3 year term expiring January 31, 2006. All of the employees at the Pulp Mill and the PolarBoard Division are non-union. In addition, approximately 1,600 people employed by independent contractors, including truckers, perform services for Slocan on a regular basis.

The Company's senior management currently consists of six executive officers, all of whom are located at the head office in Richmond, British Columbia. The Company manages the operations of Slocan Group and the Pulp Mill. Its senior management is supported by divisional managers located at Slocan's operations throughout British Columbia. Slocan's management philosophy emphasizes short lines of communication to allow for efficient decision-making.

ENVIRONMENT

Throughout 2002, Slocan's lumber, plywood, OSB, pulp and remanufacturing facilities were in substantial compliance with existing applicable environmental regulations. Slocan's personnel engage in discussions with regulatory agencies to address any environmental issues that may arise.

In its use of forest resources, Slocan's management is committed to fulfilling its obligations to the public and the communities in which it operates and to complying with federal and provincial regulations and its own environmental protection procedures.

Every month, the Pulp Mill submits reports in accordance with the effluent permits issued to it by the Waste Management Branch to the British Columbia Ministry of Environment, Lands and Parks, Waste Management Branch and to Environment Canada. These reports cover all the terms and conditions of the effluent permits issued by the Waste Management Branch.

As a result of not using chlorine or any chlorine compounds in its bleaching process, the Pulp Mill is not directly impacted by the more stringent regulations enacted in British Columbia for organic chloride levels. However, the mill is affected by legislation of the Government of Canada with respect to total suspended solids, and the mill is currently substantially in compliance with these requirements.

If a particular site exceeds prescribed levels of certain classes of substances, the site is considered to be a "contaminated site" under the Provincial legislation governing contaminated sites which came into effect on April 1, 1997. If a site is determined to be contaminated, remediation may be required under government

supervision. As current and past owners of mill sites, all forest products companies in British Columbia may be liable for remediation costs. Slocan does not expect any material impact on its operations in complying with this legislation.

CREDIT FACILITIES

As of December 31, 2002, Slocan had US\$240 million of Senior Notes outstanding and no term bank debt. Of this, US\$50 million were Series B Notes due October 24, 2003. On February 28, 2003, Slocan prepaid the US\$50 million Series B Notes and an additional US\$30 million of other series, leaving US\$160 million outstanding. The Senior Notes outstanding and the applicable interest rates and maturities are as follows: US\$58 million at 8.49%, due October 24, 2005; US\$30 million at 8.49%, due January 24, 2006; and US\$72 million at 8.63%, due October 24, 2007.

Slocan also has a bank operating credit facility of \$95 million committed for a three year term which matures September 18, 2005, subject to extension annually for a further year. Both this operating credit facility and the Senior Notes are secured by security interests over substantially all of Slocan's assets. The terms of Slocan's debt agreements contain restrictions on the granting of further security, the incurrence of additional debt, the application of proceeds from certain sales of assets and the payment of dividends and other distributions or investments.

The Senior Notes may be prepaid by Slocan at any time. If the yield on US Treasury obligations of comparable maturity at the time of prepayment plus 50 basis points (the "Formula Yield")

is less than the original interest rates on the Senior Notes, the prepayment amount must include a "make-whole" premium which would compensate the holders for the present value of the difference between that original interest rate on the Senior Notes which are prepaid and the Formula Yield.

Slocan may be required to offer to prepay the Senior Notes, if:

- (a) either (i) any person or persons acting jointly or in concert owns, in the aggregate, directly or indirectly, a majority of the voting power of the voting stock of the Company; or (ii) within any two year period, the Directors constituting the Board, including persons elected with the approval of at least 2/3 of the elected Board members, cease to constitute a majority of the Board for reasons other than ordinary course resignation or retirement, death or disability (in each case, a "Change in Control"); and
- (b) after the Change in Control, the Senior Notes do not receive an "investment grade" rating from a nationally recognized rating agency.

After a Change in Control, any such offer to prepay Senior Notes must be made at par plus accrued interest plus, if applicable, a "make-whole" premium, calculated as outlined above. The Senior Notes received an investment grade rating of BBB at the time of issue in 1995.

CAPITAL EXPENDITURES AND INVESTMENTS

Years ended December 31					
(In thousand of dollars)	2002	2001	2000	1999	1998
Mill construction and improvements ⁽²⁾	22,125	13,038	52,920	21,078	10,255
Roads, bridges, timber and lands	22,134	18,369	17,792	16,714	12,902
Total	\$ 44,259	\$ 31,407	\$ 70,712	\$ 37,792	\$ 25,092

Notes:

(1) Includes expenditures and improvements at the Pulp Mill and Slocan's proportionate share of expenditures and improvements relating to the integrated pulp and paper operations of Finlay until August 4, 1999.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Years ended December 31 ⁽¹⁾⁽²⁾	2002	2001	2000	1999	1998
Net sales	\$ 932.5	\$ 841.7	\$ 925.9	\$ 1,085.8	\$ 936.2
Net earnings (loss) ⁽³⁾	39.7	(25.2)	61.2	108.4	(157.8) ⁽⁷⁾
Total assets	834.7	818.4	874.0	788.6	906.9
Total long-term debt ⁽⁴⁾⁽⁵⁾⁽⁶⁾	376.7	381.6	361.8	350.1	572.3
Net earnings (loss) per Common Share (basic)	1.07	(0.69)	1.62	2.84	(4.14) ⁽⁷⁾
(diluted)	1.07	(0.69)	1.59	2.80 ⁽⁸⁾	-

Notes:

(1) All figures expressed in millions of dollars except per share amounts.

(2) Includes Slocan's 49.9% proportionate share of results, assets and proportionate consolidation of indebtedness relating to the Finlay operation until August 4, 1999 and Slocan's 86% proportionate share of sales revenues relating to the Pulp Mill (which was then owned on a joint venture basis between the Company as to 80% and Fibreco Export as to 20%) until December 31, 1998, and 100% thereafter.

(3) See discussion in "Management's Discussion and Analysis of Financial Results" included with this Annual Report for 2002.

(4) Includes current portion of long term debt, limited recourse debt and capital lease obligations in all years. US\$80 million (Cdn.\$125.6 million) was prepaid on February 28, 2003.

(5) For the financial year ending December 31, 1998, long term debt of \$502.2 million was reclassified as current liabilities due to non-compliance by Slocan of certain financial ratios under its Senior Notes and term debt facility pending renegotiation of amended terms of this indebtedness with its lenders. As a result of the completion of these renegotiations in August 1999, US\$87.5 million was repaid and \$346.4 million of current liabilities was reclassified as long-term debt for the financial year ending December 31, 1999.

(6) See also "Slocan's Consolidated Financial Statements" included with this Annual Report for 2002.

(7) Includes unusual write downs of \$182.6 million (\$125.1 million after-tax or \$3.28 per share) for impairment of the Pulp Mill's and Valemount Division's property, plant and equipment, and the write down of deferred foreign exchange losses on settlement of debt.

(8) Restated to reflect changes in accounting standards.

For a discussion of the factors affecting the comparability of the data set out above and a discussion of trends in financial condition and results of operations, see the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Annual Report for 2002, which is incorporated by reference herein.

QUARTERLY DATA

For The Three Months		2002				2001 ⁽²⁾			
Ended (unaudited) ⁽¹⁾		Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Net sales		\$248.9	\$229.9	\$245.4	\$208.3	\$201.3	\$251.2	\$197.5	\$191.7
Net earnings (loss)		8.5	43.4	(12.3)	0.1	(22.2)	25.1	(8.0)	(20.1)
Net earnings (loss) per Common Share (basic)		0.23	1.18	(0.33)	0.00	(0.61)	0.68	(0.22)	(0.54)
(diluted)		0.23	1.16	(0.33)	0.00	(0.61)	0.67	(0.22)	(0.54)

Notes:

(1) All figures expressed in millions of dollars except per share amounts.

(2) 2001 figures have been restated to reflect a change in accounting policy.

DIVIDENDS

The declaration and payment of dividends are at the discretion of the Company's directors and subject to continuing compliance with the requirements of the Company's financing agreements. Slocan was restricted under its Senior Notes and bank agreements from paying dividends during a certain period of 1998 and 1999 and recommenced the payment of quarterly dividends in the fourth quarter of 1999. In light of the weak markets for most of the Company's products and economic and other uncertainties, the Board of Directors decided not to pay a dividend in the fourth quarter of 2001 or any quarterly dividends in 2002.

The Company declared and paid cash dividends per Common Share in the years ending on December 31 as shown below:

2002	2001	2000	1999	1998
\$0.00	\$0.375	\$ 0.50	\$ 0.075	\$ 0.00

SHARE CAPITAL

After giving effect to subdivisions in May 1990 and 1994, the Company has an authorized capital of 80,000,000 Common Shares and 10,000,000 preferred shares. The special rights and restrictions attached to the preferred shares were altered at the time of the 1990 subdivision to allow the directors of the Company to fix the number and designation of each series of Preferred shares and, subject to certain limitations, define the special rights and restrictions attached to, each such series.

On November 10, 1995, the Board of Directors adopted a Shareholder Rights Plan that was subsequently approved by the shareholders. Under the Plan, the directors approved the issue of one Right for each Common Share outstanding on that date. The Plan was extended for a further three year term by Slocan's shareholders at the annual general meeting in June 1999. To amend, restate and replace the Company's original Shareholder Rights Plan, a new Shareholder Rights Plan was approved by the shareholders at the annual and special meeting held on May 24, 2002 for a three year term expiring on May 24, 2005.

An additional Right will be issued for each Common Share issued thereafter, so long as the Rights remain outstanding. A Right becomes exercisable only after the occurrence of certain specified events. Generally, if a person acquires or offers to acquire 20% or more of the Common Shares, a Right will become exercisable and will entitle the holder of the Right (other than the acquiring person) to purchase an additional Common Share at a 50% discount from the then prevailing market price.

A Right is not triggered by a "permitted bid," which is a takeover bid made to all shareholders by way of takeover bid circular that complies with certain specified requirements. Such a bid must remain outstanding for 60 days unless the holders of more than 50% of the Common Shares held by shareholders independent of the bidder accept the bid or indicate to the Board of Directors that they support the bid. The Board of Directors may waive the application of the Shareholders Rights Plan or redeem the Rights at a nominal cost, in specified circumstances.

As at April 1, 2003 there were 36,945,196 Common Shares issued and outstanding. No preferred shares have been issued.

MARKET FOR SECURITIES

The Common Shares are listed on The Toronto Stock Exchange and trade under the symbol SFF.

Each of the persons whose name appears below is currently a director or officer of the Company. Each director holds office from the date of his election or appointment until the next Annual General Meeting of the Company or until he sooner ceases to hold office.

Name, Office Held and Municipality of Residence	Present Principal Occupation	Director Since
Irving K. Barber ⁽²⁾ Director Delta, B.C.	President of Slocan - LP OSB Corp.	1978
Stephen T. Bellringer ⁽¹⁾⁽⁵⁾ Director Vancouver B.C.	Chairman of Anthem Properties Corp. (real estate investment and property management)	1998
Kenneth P. Benson ⁽¹⁾⁽²⁾ Director Vancouver, B.C.	Retired (forestry executive)	1998
William J. Corcoran ⁽³⁾ Director Kleinburg Ontario	Vice Chairman of Jarislowsky, Fraser Limited (investment manager)	2001
Stephen A. Jarislowsky ⁽²⁾ Director Westmount Quebec	Chairman and Chief Executive Officer of Jarislowsky, Fraser Limited (investment manager)	2000
Michael J. Korenberg ⁽¹⁾ Director North Vancouver, B.C.	Managing Director, Vice Chairman of the Jim Pattison Group (diversified businesses)	2001
Brandt C. Louie Chairman West Vancouver, B.C.	President of H. Y. Louie Co. Limited (food distribution)	1994
James A. Pattison Director Vancouver B.C.	President, Managing Director, Chief Executive Officer & Chairman of The Jim Pattison Group (diversified businesses)	2001
James A. Shepherd President, Chief Executive Officer and a Director Surrey, B.C.	Officer of the Company	1999
John Weatherall Director Toronto, Ontario	President of Scarthingmoor Asset Management Inc. (Investment Consultant)	1991
Donald B. Clutterham Vice-President, Business Development Surrey B.C.	Officer of the Company	N/A
Terry D. Hodgins Vice-President and Financial Officer West Vancouver, B.C.	Officer of the Company	N/A
Daniel W. Madlung Vice-President, Operations Vancouver, B.C.	Officer of the Company	N/A
Thomas J. Temple Vice-President, Sales & Marketing Vancouver, B.C.	Officer of the Company	N/A
Douglas A. Wilkes Senior Vice-President, Chief Financial Officer and Secretary North Vancouver, B.C.	Officer of the Company	N/A

Notes:

- (1) Member of the audit committee.
 (2) Member of the human resources and compensation committee.
 (3) Member of the nominating and governance committee.

As to those officers who have held more than one position with the Company during the last five years, their previous positions were as follows: James A. Shepherd was President and Chief Operating Officer and Donald B. Clutterham was Vice-President and Regional Manager - Operations and prior to that Vice-President of Northern Operations.

The principal occupations of each of the directors of the Company for the five preceding years have been as shown above except for: Irving K. Barber, who prior to February 2002 was Chairman of the Company and prior to July 2000 was Chairman and Chief Executive Officer of the Company; Stephen T. Bellringer, who, prior to December 1999 was Chief Executive Officer of Orca Bay Sports and Entertainment, and prior to March 1, 2002 was President and Chief Executive Officer of Canadian Hotel Income Properties; William J. Corcoran, who prior to December 31, 2000 was Vice Chairman of the Ontario Pension Board; and James A. Shepherd, who prior to February 1999, was President and Chief Operating Officer of Crestbrook Forest Industries Ltd. and President of Finlay Forest Industries Limited and prior to July 2000 was President and Chief Operating Officer of the Company.

As of April 1, 2003, the directors and senior officers of the Company, as a group, beneficially owned directly or indirectly or exercised control or direction over 11,620,967 Common Shares (31%).

ADDITIONAL INFORMATION

Reference is made to the sections of this Annual Report for 2002 entitled "Management's Discussion and Analysis of Financial Results" and "Consolidated Financial Statements" that are by this reference incorporated herein.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, is contained in the Information Circular for the Annual General Meeting of the Company held on May 24, 2002 and is contained in the Information Circular for the Annual General Meeting to be held on June 6, 2003. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the year ended December 31, 2002, which are contained in this Annual Report for 2002.

In addition, the Company will provide to any person, upon request to the Secretary:

- (a) when the Company's securities are in the course of a distribution under a preliminary short form prospectus or a short form prospectus that has been filed in respect of such distribution:
 - (i) one copy of this Annual Information Form together with a copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
 - (ii) one copy of the Company's comparative financial statements for the year ended December 31, 2002, together with the accompanying report of the auditor and one copy of any interim financial statements of the Company that have been filed subsequent to December 31, 2002;
 - (iii) one copy of the Company's Information Circular in respect of its most recent annual general meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i), (ii) or (iii) above; or
- (b) at any other time, one copy of any other documents referred to in (a) (i), (ii) or (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

(in thousands of dollars except per share amounts)	2002	2001	2000	1999	1998
Consolidated Statement of Earnings					
Sales	\$ 932,484	\$ 841,746	\$ 925,863	\$1,085,813	\$ 936,232
Costs and Expenses					
Cost of products sold	785,853	741,304	715,615	774,479	819,903
Depreciation and amortization	52,725	55,285	56,971	56,171	69,766
Selling and administration	31,715	29,029	25,592	24,584	32,710
	870,293	825,618	798,178	855,234	922,379
Earnings from Operations before reversal of U.S. duties	62,191	16,128	127,685	230,579	13,853
Reversal of U.S. duties	25,957	-	-	-	-
Earnings from operations	88,148	16,128	127,685	230,579	13,853
Interest	(32,327)	(31,967)	(27,382)	(45,500)	(64,562)
Loss on sale of investment in Finlay	-	-	-	(11,009)	-
Foreign exchange gain on US \$ debt	-	-	-	10,299	-
Write off of deferred changes	-	-	-	(634)	(49,090)
Asset write downs	-	-	-	-	(133,500)
Earnings (loss) before unrealized gain (loss) on translation of US\$ denominated debt and income taxes	55,821	(15,839)	100,303	183,735	(233,299)
Unrealized gain (loss) on translation of US\$ denominated debt	4,968	(21,768)	-	-	-
Earnings (loss) before income taxes	60,789	(37,607)	-	-	-
Income Tax Expense (recovery)					
Current	12,407	13,616	58,858	3,946	1,050
Future	8,999	(25,831)	(19,585)	71,472	(75,127)
	21,406	(12,215)	39,273	75,418	(74,077)
Earnings (loss) before equity in earnings (loss) of affiliates and non-controlling interest	39,383	(25,392)	61,030	108,3	(159,222)
Equity in earnings (loss) of affiliates	276	151	173	100	(326)
Non-controlling interest	-	-	-	-	1,733
Net Earnings (loss)	39,659	(25,241)	\$ 61,203	\$ 108,417	\$ (157,815)
Net earnings (loss) per common share -					
Basic	\$ 1.07	\$ (0.69)	\$ 1.62	\$ 2.84	\$ (4.14)
Diluted ⁽¹⁾	\$ 1.07	\$ (0.69)	\$ 1.59	\$ 2.80 ⁽¹⁾	\$ -

(1) Restated to reflect change in accounting standard



Slocan Forest Products Ltd.
Consolidated Financial Statements
(in thousands of dollars)

December 31, 2002 and 2001

AUDITORS' REPORT

To the Shareholders of Slocan Forest Products Ltd.

We have audited the consolidated balance sheets of Slocan Forest Products Ltd. as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied, after giving effect to the change in accounting policies described in note 2 to the consolidated financial statements, on a consistent basis.



PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, BC

February 7, 2003

(except note 17, which is as at February 28, 2003)

RESPONSIBILITY OF MANAGEMENT

The management of Slocan Forest Products Ltd. is responsible for the preparation as well as the integrity of the accompanying consolidated financial statements and all related financial data contained in the Annual Statutory Report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily include amounts which represent the best estimates and judgements of management. The Company has developed and maintains a system of internal accounting control designed to provide reasonable assurance that assets are safe-guarded and that transactions are executed in accordance with management's authorizations.

The consolidated financial statements have been examined by the Company's auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

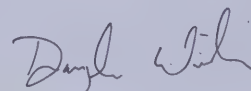
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee comprised of three Directors, none of whom are officers or employees of the Company. The committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders.



J. A. Shepherd
President and
Chief Executive Officer

Vancouver, BC

February 7, 2003



D.A. Wilkes
Senior Vice-President, Chief
Financial Officer and Secretary

CONSOLIDATED BALANCE SHEETS

As at December 31, 2002 and 2001 (in thousands of dollars)	2002	2001 (note 2)
Assets		
Current assets		
Cash and cash equivalents	\$ 139,844	\$ 87,853
Accounts receivable	76,635	70,046
Inventories (note 3)	147,960	187,358
Income taxes receivable	2,331	-
Prepaid expenses	11,562	10,072
	378,332	355,329
Investments and other assets (note 4)	9,571	9,835
Property, plant and equipment (note 5)	433,155	441,840
Deferred charges (note 6)	13,673	11,356
	\$ 834,731	\$ 818,360
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 121,949	\$ 123,657
Current income taxes payable	-	400
Future income taxes payable (note 12)	12,828	9,544
Current portion of long-term debt (notes 8 and 17)	78,475	-
	213,252	133,601
Contingent items (note 10)	-	25,957
Reforestation obligation (note 7)	4,916	4,462
Long-term debt (notes 8 and 17)	298,205	381,648
Future income taxes (note 12)	85,545	79,830
	601,918	625,498
Shareholders' Equity		
Capital stock (note 9)	178,338	178,046
Retained earnings	54,475	14,816
	232,813	192,862
	\$ 834,731	\$ 818,360

Subsequent event (note 17)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 2002 and 2001 (in thousands of dollars)	2002	2001
Retained earnings - Beginning of year as previously reported	\$ 36,065	\$ 56,637
Change in accounting for deferred foreign exchange loss on long-term debt (note 2)	(21,249)	(2,817)
Retained earnings - beginning of year as restated	14,816	53,820
Net earnings (loss) for the year	39,659	(25,241)
	54,475	28,579
Dividends	-	(13,763)
Retained earnings - End of year	\$ 54,475	\$ 14,816

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2002 and 2001		
(in thousands of dollars, except for per share amounts)	2002	2001
Sales	\$ 932,484	\$ 841,746
Costs and expenses		
Cost of products sold	785,853	741,304
Depreciation and amortization	52,725	55,285
Selling and administration	31,715	29,029
	870,293	825,618
Earnings from operations before reversal of U.S. duties	62,191	16,128
Reversal of U.S. duties (note 10)	25,957	-
Earnings from operations	88,148	16,128
Interest (income) expense		
Short-term investments	(2,370)	(3,332)
Long-term debt	34,697	35,299
	32,327	31,967
Earnings (loss) before unrealized gain on translation of US\$ denominated debt and income taxes	55,821	(15,839)
Unrealized gain (loss) on translation of US\$ denominated debt	4,968	(21,768)
Earnings (loss) before income taxes	60,789	(37,607)
Income tax expense (recovery) (note 12)		
Current	12,407	13,616
Future	8,999	(25,831)
	21,406	(12,215)
Earnings (loss) before equity in earnings of affiliates	39,383	(25,392)
Equity in earnings of affiliates	276	151
Net earnings (loss) for the year	\$ 39,659	\$ (25,241)
Net earnings (loss) per common share (note 13)		
Basic	\$ 1.07	\$ (0.69)
Diluted	\$ 1.07	\$ (0.69)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2002 and 2001 (in thousands of dollars)	2002	2001
Cash flows from operating activities		
Net earnings (loss) for the year	\$ 39,659	\$ (25,241)
Items not affecting cash		
Depreciation and amortization	52,725	55,285
Countervailing and anti-dumping duty provision (note 10)	(25,957)	25,957
Reforestation expense	20,299	19,054
Future income taxes	8,999	(25,831)
(Gain) loss on revaluation of US\$ denominated debt	(4,968)	21,768
Other	(373)	(128)
	90,384	70,864
Reforestation expenditures	(19,601)	(19,860)
Change in non-cash working capital items (note 15)	26,704	(32,541)
	97,487	18,463
Cash flows from investing activities		
Additions to property, plant and equipment	(44,259)	(31,407)
Proceeds from disposal of property, plant and equipment	316	202
Investments and other assets - net	(1,845)	1,851
	(45,788)	(29,354)
Cash flows from financing activities		
Repayment of long-term debt	-	(1,918)
Issuance of common shares	292	1,653
Dividends	-	(13,763)
	292	(14,028)
Increase (decrease) in cash and cash equivalents	51,991	(24,919)
Cash and cash equivalents - Beginning of year	87,853	112,772
Cash and cash equivalents - End of year	\$ 139,844	\$ 87,853
Interest paid	\$ 34,682	\$ 38,433
Income taxes paid	\$ 14,600	\$ 46,485

1 Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

Tackama Forest Products Ltd. (Tackama)	100%
Plateau Forest Products Ltd. (Plateau)	100%

Investments

Investments in Fibreco Export Inc. and other investments are accounted for using the equity method.

Inventories

Log, lumber, panel products, and pulp inventories are valued at the lower of average cost and net realizable value.

Processing materials and supplies are valued at the lower of average cost and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost net of investment tax credits less accumulated depreciation and amortization including the amount of any writedowns. Cost includes capitalized interest and pre-production and start-up costs for major new construction projects.

Manufacturing and production assets are depreciated using the unit-of-production method based on the estimated useful lives of the assets at normal production levels. Depreciation commences upon achievement of commercial production.

The cost of constructing logging roads is amortized on the basis of the volume of timber removed from each logging area.

Timber tenures are recorded at cost and are amortized on a straight-line basis over 15 to 40 years.

Non-manufacturing assets and pre-production and start-up costs are depreciated on a straight-line basis, commencing with the start of commercial production.

Estimated useful lives are as follows:

Buildings	10 to 20 years
Manufacturing machinery and equipment	10 to 20 years
Mobile equipment and other	5 to 10 years
Pre-production and start-up costs	5 years

Reforestation obligation

The Company harvests timber under various licences. Future basic reforestation and silviculture obligations are accrued and charged to earnings on the basis of timber removed from each area. Any differences between the amounts accrued and actual expenditures for reforestation are recorded in the period the costs are incurred. Costs to reach free to grow standards under the British Columbia Forest Practices Code are treated as period costs.

Employee benefit plans

The Company maintains a defined contribution plan and defined benefit pension plans that provide for retirement benefits for salaried employees. The defined benefit pension plans provide for benefits based upon the length of service and the final average earnings of the employee. The Company also provides certain healthcare and other benefits to certain eligible retired employees. Pension expense for defined contribution plans is based on a percentage of employees' salaries or on contributions required under collective agreements.

Foreign currencies

All monetary assets and liabilities in other currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date except for accounts receivable that are covered by forward exchange contracts, which are translated to Canadian dollars at the contract rates. All exchange gains and losses from foreign currency translation are immediately included in earnings. Revenue and expense items are translated at the exchange rates in effect on the transaction dates. Realized gains and losses on derivative hedging transactions are recognized in revenue at the time of the related sales.

Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Stock-based compensation plans

The Company has stock-based compensation plans, which are described in note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees or directors. Consideration paid by employees on exercise of stock options to purchase stock is credited to capital stock.

Earnings per share

The treasury stock method recognizes the use of proceeds that could be obtained upon exercising of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with maturity of three months or less.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of countervailing and anti-dumping duty provision, reforestation, road deactivation and environmental obligations, impairment of assets, and rates for depreciation, depletion and amortization. Actual results could differ from those estimates.

Revenue recognition

The Company's revenues are derived from three main product lines: softwood lumber, pulp and panel products. Revenues from sales of wood chips are included in lumber sales. Revenue is recognized when the significant risks and rewards of ownership are transferred, which is generally at the time of shipment.

2 Change in accounting policies

Effective January 1, 2002, the Company adopted the new accounting policy of the Canadian Institute of Chartered Accountants with respect to the recognition of unrealized foreign exchange gains or losses. Under the new policy, exchange gains or losses that arise on translation of long-term debt denominated in a foreign currency are included in the determination of income for the current period. The Company has adopted the new recommendations retroactively to January 1, 2001 by restating the prior years' financial statements. The following table outlines the (decrease) increase of the restated amounts in the prior financial statements:

	2001
Deferred charges	\$ (21,249)
Retained earnings	(21,249)
Unrealized loss on translation of US\$ denominated debt	21,768
Decrease in interest expense	(3,336)

Prior to this change, gains or losses arising from translation of foreign currency debt were deferred and amortized over the remaining term of the debt and charged to interest expense.

3 Inventories

For the years ended December 31, 2002 and 2001 (in thousands of dollars)	2002	2001
Logs	\$ 64,920	\$ 67,667
Lumber	53,215	89,463
Pulp	5,377	4,218
Panel products	1,538	2,913
Processing materials and supplies	22,910	23,097
	\$ 147,960	\$ 187,358

4 Investments and other assets

	2002	2001
Fibreco Export Inc. (20.62% interest)	\$ 2,682	\$ 2,417
Timber deposits	463	463
WCB rebate	2,016	2,891
Slocan-LP OSB Corp. Joint Venture (note 10)	1,974	1,424
Other	2,436	2,640
	\$ 9,571	\$ 9,835

During 2000, the Company entered into a joint venture agreement with Louisiana-Pacific Canada Ltd. to construct and operate an oriented strand board mill in Fort St. John, British Columbia. A decision to proceed with the project, including the timing of commencing construction will be subject to a review of the supply and demand balance for oriented strand board, favourable economic conditions and an understanding of the implications of the potential British Columbia forest policy changes relating to the resolution of the softwood lumber issue. The mill is expected to cost approximately \$200 million, and if the project proceeds, the Company will be responsible for 50% of the costs. Should the mill become operational, the Company is committed to supplying 330,000 m3 of timber to the joint venture out of its existing timber tenure in the area.

The Company conducts business transactions with its equity investees. All transactions are at market prices and on normal business terms.

5 Property, plant and equipment

	2002		
	Cost	Accumulated depreciation & amortization	Net
Land	\$ 7,518	\$ -	\$ 7,518
Manufacturing plants	758,956	500,749	258,207
Logging roads	133,493	89,645	43,848
Timber tenures	158,843	35,261	123,582
	\$ 1,058,810	\$ 625,655	\$ 433,155

	2001		
	Cost	Accumulated depreciation & amortization	Net
Land	\$ 7,518	\$ -	\$ 7,518
Manufacturing plants	749,697	480,734	268,963
Logging roads	113,125	76,627	36,498
Timber tenures	158,843	29,982	128,861
	\$ 1,029,183	\$ 587,343	\$ 441,840

6 Deferred charges

	2002	2001
Financing fees	\$ 3,314	\$ 3,259
Timber development costs	10,359	8,097
	\$ 13,673	\$ 11,356

7 Reforestation obligation

The Company's reforestation obligation and expense are:

	2002	2001
Reforestation obligation - Beginning of year	\$ 14,527	\$ 15,333
Expense for the year	20,299	19,054
	34,826	34,387
Less: Paid during the year	19,601	19,860
Reforestation obligation - End of year	\$ 15,225	\$ 14,527
Current - included in accrued liabilities	\$ 10,309	\$ 10,065
Long-term	4,916	4,462
	\$ 15,225	\$ 14,527

8 Long-term debt

	2002	2001
Senior notes payable (US\$240 million)	\$ 376,680	\$ 381,648
Less: Current portion	78,475	-
	\$ 298,205	\$ 381,648

The Canadian equivalent of the senior notes payable has been calculated using the year-end exchange rate.

The terms of the Company's debt facilities are as follows:

a) Senior notes payable (US\$240 million), issued in series with varying maturities and interest rates are as follows:

Series	Maturity date	Interest rate %	Amount
B	October 24, 2003	8.32	US\$ 50,000
C	October 24, 2005	8.49	60,000
D	January 24, 2006	8.49	30,000
E	October 24, 2007	8.63	100,000
			US\$ 240,000

Scheduled repayments of senior notes payable over the next five years are:

2003	(US\$50 million)	\$ 78,475
2005	(US\$60 million)	\$ 94,170
2006	(US\$30 million)	\$ 47,085
2007	(US\$100 million)	\$ 156,950

- b) A revolving operating credit facility of \$95 million has interest at LIBOR plus 2-1/4% for a minimum term to August 2005. At December 31, 2002, \$24.4 million of the facility has been utilized by the issuance of short-term letters of credit. Included in this amount is a letter of credit for US\$10.4 million which was established in conjunction with the posting of bonds for countervailing and anti-dumping duties on shipments to the United States in 2001 and will be cancelled when the bonds are released (see note 10).
- c) Substantially all of the Company's assets have been pledged as security for the debt facilities. The security over the assets will be released by its lenders if the Company achieves certain financial ratios for six consecutive quarters after the completion of the Slocan-LP OSB Corp. mill (note 4).

9 Capital stock

Authorized

10,000,000 preferred shares without par value
80,000,000 common shares without par value

Issued - common

	2002		2001	
	Number of shares	Amount	Number of shares	Amount
Capital stock - Beginning of year	36,895,896	\$ 178,046	36,495,655	\$ 176,393
Shares issued via stock options	48,800	292	400,241	1,653
Capital stock - End of year	36,944,696	\$ 178,338	36,895,896	\$ 178,046

Stock option plans

The Company has two stock option plans. Under the Employee Stock Option Plan, the Company may grant options to its employees for up to 4,117,850 shares of common stock of which 2,493,350 have been granted as of December 31, 2002. Under the Directors Stock Option Plan, the Company may grant options to directors for up to 450,000 shares of common stock of which 300,000 have been granted as of December 31, 2002. The exercise price per share under these plans is to be determined by the board of directors but shall not be less than the market price on the date on which the option is granted. The vesting of the options occurs at a rate of 33% per annum.

A summary of the status of the Company's two stock option plans as of December 31, 2002 and 2001, and changes during the years ending on those dates, is presented below:

	2002		2001	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options				
Outstanding - Beginning of year	2,149,591	\$ 8.39	2,382,566	\$ 8.18
Granted	35,000	8.86	389,000	8.90
Exercised	(48,800)	(5.99)	(400,241)	(4.13)
Expired/forfeited	(320,900)	(8.04)	(221,734)	(14.75)
Outstanding - End of year	1,814,891	\$ 8.53	2,149,591	\$ 8.39
Options exercisable at year end	1,671,891		1,516,099	

The following table summarizes information about stock options outstanding at December 31, 2002:

Exercise price (\$)	Number outstanding	Weighted average remaining contractual life (years)	Number of exercisable options
3.65	351,411	6.0	351,411
4.65	20,000	6.0	20,000
7.60	257,980	8.0	257,980
8.05	150,000	8.0	150,000
8.86	35,000	9.5	11,667
8.90	359,000	9.0	239,333
9.35	250,000	7.5	250,000
13.00	391,500	7.0	391,500
	1,814,891		1,671,891

Stock-based compensation

On May 24, 2002, the Company granted 35,000 stock options to an employee at an exercise price of \$8.86 per share, which was the market price on that date. These options expire on May 24, 2012. These options vest at a rate of 33% per year.

Canadian generally accepted accounting principles encourage, but do not require, application of a fair value base method of accounting for the type of stock options described above. Under this method, the fair value of a stock option is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, the expected volatility, the expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

As permitted by Canadian generally accepted accounting principles, the Company has elected not to use the fair value based method of accounting for stock options because of the theoretical nature of the calculation and the Company's limited use of stock-based compensation. Accordingly, no compensation expense was recorded at the time that the above options were granted. Had compensation cost been determined based on the fair value at the grant date consistent with the fair value based method of accounting, the resulting after-tax compensation cost for options granted after January 1, 2002 would have amounted to approximately \$102,000. This amount would have been recognized over three years, which is the period of service during which options will be earned by employees, and would not have had a material impact on the Company's net income and earnings per share in the year.

Employee share purchase plan

The share purchase plan is available to all employees. Purchases of common shares under this plan will either occur on the open market or from treasury stock. Under the plan, the Company will discount stock issued from treasury by 5% of the market price or contribute 5% to any purchases of stock on the open market.

10 Commitments

a) In April 2002, the U.S. Department of Commerce (USDOC) and U.S International Trade Commission (USITC) issued their final determinations in the countervailing and anti-dumping investigations. As a result, cash deposits are required from May 22, 2002 for lumber shipments to the U.S. at the rates determined by the USDOC and all bonds or cash deposits posted prior to May 22, 2002 are to be refunded. The USDOC's final determination in the countervailing investigation resulted in a duty deposit rate of 18.79%. The USDOC's final determination in the anti-dumping investigation resulted in company specific duty deposit rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43%. The Company was one of the six investigated, and was assigned a specific anti-dumping deposit rate of 7.71%.

The Company has expensed \$57.8 million representing the combined countervailing and anti-dumping duties on lumber shipments from May 22, 2002 to the end of the year. This amount has been charged to earnings by a reduction in reported net sales. As a result of the USITC ruling on May 16, 2002, the Company has also reversed \$26.0 million of

combined countervailing and anti-dumping duties charged against 2001 earnings.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the US allegations and strongly disagree with the final countervailing and anti-dumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute. Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the final rates established in the investigations, the final liability for the assessment of countervailing and anti-dumping duties will not be determined

until each annual administrative review process is complete and the appeal processes have been concluded.

b) During 1999, the Company was successful, with the assistance of the British Columbia Job Protection Commission, in developing an economic plan that enabled the Company to maintain operations at its pulp mill through a period of depressed conditions in the pulp industry. This plan included restructuring energy costs based on a formula tied to pulp prices and mill operating rates. Under the plan, energy costs in future years will be based on the prevailing price of pulp and mill operating rates, which may result in higher energy costs as pulp markets improve, and will continue until such higher costs equate to the cumulative benefit received, which at December 31, 2002 totalled to \$9.3 million.

11 Employee benefit plans

The Company maintains both defined benefit and defined contribution pension plans covering substantially all salaried employees and certain hourly employees. The following significant actuarial assumptions were employed to determine the pension expense and the accrued pension obligations of the defined benefit plans:

	2002	2001
Expected long-term average rate of return on plan assets	7.00%	7.73%
Discount rate	6.50%	6.75%
Rate of compensation increase	2.21%	2.19%

The change in accrued benefit obligation during the year was:

	2002	2001
Balance - Beginning of year	\$ 58,992	\$ 50,978
Change in actuary assumptions	1,704	3,921
Experience loss	436	-
Current service cost	3,087	2,880
Interest cost	4,065	3,736
Benefits paid	(2,728)	(2,523)
Balance - End of year	\$ 65,556	\$ 58,992

The change in plan assets during the year was:

	2002	2001
Fair value - Beginning of year	\$ 52,004	\$ 49,751
Actual return on plan assets	(297)	2,056
Employer contributions	3,003	2,720
Benefits paid	(2,728)	(2,523)
Fair value - End of year	\$ 51,982	\$ 52,004

The funded status of the plan is as follows:

	2002	2001
Deficiency of plan assets	\$ 13,574	\$ 6,988
Unamortized net actuarial loss	(9,980)	(4,448)
Unamortized transitional obligation	992	847
Net accrued benefit liability	\$ 4,586	\$ 3,387

Included in the accrued benefit obligation amounts above are unfunded obligations for supplemental benefits under the defined benefit pension plan in excess of those limited by statutory restrictions. At December 31, 2002 the projected benefit obligation for supplemental benefits was \$6.5 million.

The total pension expense for the year is:

	2002	2001
Defined benefits plan		
Current service costs	\$ 3,087	\$ 2,880
Employee contributions	(150)	(152)
Interest on accrued benefit obligation	4,065	3,736
Expected return on plan assets	(3,600)	(3,878)
Amortization of net transitional obligation	148	144
	3,550	2,730
Defined contribution plan	1,598	1,491
Total pension expense	\$ 5,148	\$ 4,221

At December 31, 2002, the unfunded actuarial net present value of the accrued benefit obligation for health care and other post-retirement benefits was \$6.8 million and the related expense for the year was \$638,800 based on health care cost trends assumed to increase by 15% in 2003, with the annual rate of increase lessening to 5% over five years.

12 Income taxes

The tax effects of the significant components of temporary differences that give rise to future income taxes are as follows:

	2002	2001
Current future income taxes payable		
Deferred income	\$ 16,500	\$ 13,129
Current reforestation	(3,672)	(3,585)
	12,828	9,544
Future income taxes payable		
Depreciable property, plant and equipment	90,934	94,391
Contingent liability	-	(9,246)
Long-term reforestation	(1,751)	(1,589)
Other	(3,638)	(3,726)
	85,545	79,830
	\$ 98,373	\$ 89,374

The Company's effective tax rate is as follows:

		2002		2001
Federal income tax - net	\$ 13,434	22.1%	\$ (8,311)	(22.1)%
Provincial income tax - net	8,206	13.5	(6,205)	(16.5)
	21,640	35.6	(14,516)	(38.6)
Large corporations tax	1,344	2.4	988	2.6
Tax rate changes	-	-	(6,300)	(16.8)
Other items	(1,578)	(2.8)	7,613	20.3
	\$ 21,406	35.2%	\$ (12,215)	(32.5)%

13 Net earnings per common share

Basic earnings per share is calculated on net earnings available to common shareholders using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on net earnings available to common shareholders, adjusted for the effects of dilutive convertible securities, if any, using the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

	2002	2001
Basic		
Net earnings (loss) available to common shareholders	\$ 39,659	\$ (25,241)
Weighted average number of common shares outstanding	36,927,092	36,726,288
Basic earnings (loss) per share	\$ 1.07	\$ (0.69)
Diluted		
Incremental shares from assumed options (see below)	251,235	-
Adjusted weighted average number of shares	37,178,327	36,726,288
Diluted earnings (loss) per share	\$ 1.07	\$ (0.69)

In 2002, 1,035,500 options were excluded because the exercise price of the options was greater than the average market price of the common shares. In 2001, options to purchase 2,149,591 common shares outstanding at year-end were excluded from the computation of diluted loss per share as their inclusion would be anti-dilutive.

14 Segmented information

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

The three reportable segments are lumber, panel products and pulp. The lumber segment manufactures dimension lumber in varying grades and species for the construction industry; the panel product segment manufactures plywood and oriented strand board to serve the construction industry; and the pulp segment manufactures CTMP for paper, packaging, industrial and consumer products.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Interest expense and income are allocated to the respective segments based on invested capital and working capital. The Company evaluates segment performance based on profit or loss from operations.

2002	Lumber	Panel	Pulp	Non-segment	Total
External sales	\$ 690,349	\$ 176,948	\$ 65,187	\$ -	\$ 932,484
Depreciation and amortization	\$ 41,884	\$ 9,692	\$ 406	\$ 743	\$ 52,725
Earnings (loss) from operations					
before reversal of U.S. duties	\$ 34,711	\$ 27,677	\$ 4,392	\$ (4,589)	\$ 62,191
Reversal of U.S. duties	\$ 25,957	\$ -	\$ -	\$ -	\$ 25,957
Earnings (loss) from operations	\$ 60,668	\$ 27,677	\$ 4,392	\$ (4,589)	\$ 88,148
Net interest expense	\$ (10,745)	\$ (6,265)	\$ (9,103)	\$ (6,214)	\$ (32,327)
Segment earnings (loss)	\$ 49,923	\$ 21,412	\$ (4,711)	\$ (10,803)	\$ 55,821
Total assets	\$ 645,175	\$ 138,814	\$ 37,857	\$ 12,885	\$ 834,731
Capital expenditures	\$ 38,562	\$ 3,332	\$ 1,958	\$ 407	\$ 44,259

2001	Lumber	Panel	Pulp	Non-segment	Total
External sales	\$ 619,324	\$ 158,927	\$ 63,495	\$ -	\$ 841,746
Depreciation and amortization	\$ 42,109	\$ 11,929	\$ 356	\$ 891	\$ 55,285
Earnings (loss) from operations	\$ 18,816	\$ 13,366	\$ (11,315)	\$ (4,739)	\$ 16,128
Net interest expense	\$ (11,887)	\$ (5,566)	\$ (8,891)	\$ (5,623)	\$ (31,967)
Segment earnings (loss)	\$ 6,929	\$ 7,800	\$ (20,206)	\$ (10,362)	\$ (15,839)
Total assets	\$ 596,972	\$ 175,094	\$ 36,742	\$ 9,552	\$ 818,360
Capital expenditures	\$ 26,934	\$ 3,573	\$ 823	\$ 77	\$ 31,407

Geographic segmentation

All of the Company's operations, employees and assets are located in British Columbia.

Sales distribution

Sales by major market are:

	2002	2001
United States	\$ 494,130	\$ 445,918
Other foreign countries	216,601	204,890
Total export sales	710,731	650,808
Canada	221,753	190,938
	\$ 932,484	\$ 841,746

Major customers

The Company has no customers that purchased more than 10% of total sales.

15 Change in non-cash working capital items

	2002	2001
Accounts receivable	\$ (6,589)	\$ (6,007)
Inventories	39,398	9,379
Prepaid expenses	(1,490)	(1,288)
Current income taxes payable	(2,731)	(33,661)
Accounts payable and accrued liabilities, excluding current portion of reforestation obligation	(1,884)	(964)
	\$ 26,704	\$ (32,541)

16 Financial instruments

Fair values

The carrying value and fair value of the Company's financial instruments are as follows:

	2002		2001	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Long-term debt	\$ 376,680	\$ 408,304	\$ 381,648	\$ 373,637
Derivative financial instruments				
Forward exchange contracts	-	-	-	\$ 289

The carrying values of accounts receivable, investments and other assets, income taxes payable, and accounts payable and accrued liabilities approximate their fair values. The fair value of long-term debt is estimated using discounted cash flow analysis utilizing incremental borrowing rates based on the Company's current credit position. The fair value of derivative financial instruments is estimated by obtaining quotations for similar instruments from the Company's counterparties.

17 Subsequent event

On February 28, 2003, the Company prepaid its US\$50 million Series B notes payable and repurchased US\$2 million of its Series C and US\$20 million of its series E notes payable. In addition to the principal amount, US\$5.5 million for accrued interest and a prepayment premium was paid from cash on hand.

OFFICERS AND SENIOR MANAGEMENT

James A. Shepherd

President & Chief Executive Officer

Douglas A. Wilkes

Senior Vice-President,
Chief Financial Officer & Secretary

Donald B. Clutterham

Vice-President, Business Development

Terry D. Hodgins

Vice-President & Financial Officer

Daniel W. Madlung

Vice-President, Operations

Thomas J. Temple

Vice-President, Sales & Marketing

Roger V. Ennis

Manager, Forestry & Communications

Alex Ferguson

Chief Forester

Keith R. Leech

Manager, Human Resources

Daniel G. Muzzin

Manager, Corporate Planning & Purchasing

Derek Stewart

General Manager, Fort Nelson Operations

Edward J. Anthony

Division Manager, Plateau Division

Arne Dohlen

Division Manager, Radium Division

Marcel E. Favron

Division Manager, Valemount Division

Fred F. Fominoff

Division Manager, Taylor Pulp Division

Lorence A. Forsberg

Division Manager, PolarBoard Division

Keith D. McGregor

Division Manager, Mackenzie Division

Alistair Mellander

Division Manager, Uneeda Wood
Products Division

Cameron D. Milne

Division Manager, Slocan Division

Steven T. Pelton

Division Manager, Vavenby Division

Ken Petteplace

Division Manager, Tackama Division

Kerry R. Staples

Division Manager, Quesnel Division

BOARD OF DIRECTORS

Irving K. Barber

Retired

Kenneth P. Benson

Retired

Stephen T. Bellringer

Chairman, Anthem Properties Corp.

William J. Corcoran

Vice Chairman, Jarislowsky, Fraser Limited

Stephen A. Jarislowsky

Chairman & Chief Executive Officer,
Jarislowsky, Fraser Limited

Brandt C. Louie

Chairman, Slocan Forest Products Ltd.
and President, H.Y. Louie Co. Limited

Michael J. Korenberg

Managing Director, Vice-Chairman
of The Jim Pattison Group

James A. Pattison

President, Managing Director,
Chief Executive Officer & Chairman
of The Jim Pattison Group

James A. Shepherd

President & Chief Executive Officer,
Slocan Forest Products Ltd.

John Weatherall

President, Scarthingmoor Asset
Management Inc.

STOCK EXCHANGE LISTING

Stock Exchange - Toronto
Trading symbol - SFF

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Slocan Division

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Valemount Division

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Vavenby Division

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Uneeda Wood Products Division

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Chilliwack, BC V2R 4P4

Taylor Pulp Division

P.O. Box 330
Taylor, BC V0C 2K0

ANNUAL MEETING

The twenty-fifth Annual General Meeting of the Company will be held in the Arbutus Room of the Four Seasons Hotel, 791 West Georgia St., Vancouver, B.C. at 2:00 pm on the 6th day of June, 2003.



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